Poalim Express Ltd.

Annual Report

For the year ended December 31, 2013

Report as at December 31, 2013

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Poalim Express Ltd.

Board of Directors' Report

For the Year Ended December 31, 2013

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

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

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

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1995 as a private company. The Company is owned by Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**").

The Company is a credit-card company and an "auxiliary corporation" according to the definition of this term in the Banking Law (Licensing), 1981 (hereinafter: "**Auxiliary Corporation**"). The Company 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. (hereinafter: "**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. (hereinafter: "**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 (hereinafter: "**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. (hereinafter: "**Europay**"), and the Company.

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

Developments in the Global Economy

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

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

The Israeli Economy

Economic Activity in Israel

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

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

Fiscal and Monetary Policy

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

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

Inflation and Exchange Rates

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

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

The Credit-Card Industry in Israel

As at the reporting date, the following companies operate in the area of credit-card issuance and clearing in Israel: (1) the Company, which, as noted, issues and clears American Express credit cards; (2) Isracard, which issues and clears Isracard credit cards, issues and clears MasterCard credit cards jointly with Europay, and issues and clears Visa credit cards; (3) Leumi Card Ltd. (hereinafter: "**Leumi Card**"), which, to the best of the Company's knowledge, issues Visa and MasterCard credit cards and clears Visa, MasterCard, and Isracard credit cards; (4) Cartisei Ashrai Leisrael Ltd. (hereinafter: "**CAL**"), which, to the best of the Company's knowledge, issues Visa and MasterCard credit cards and clears Visa, MasterCard, and Isracard credit cards; and (5) Diners Club Israel Ltd. (hereinafter: "**Diners**"), 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 the banking system.

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

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2013

	Active cards	Inactive cards	Total
Bank cards	276	66	342
Non-bank cards – Credit risk on the Company	105	66	171
Total	**381**	**132**	**513**

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**

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

	For the year ended December 31	
	2013	**2012**
Bank cards	12,233	11,112
Non-bank cards – Credit risk on the Company	2,991	2,683
Total	**15,224**	**13,795**

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 43 million in 2013, compared with NIS 38 million in 2012, an increase of 13%.

Net return on average equity reached 19.3% in 2013, compared with 20.7% in 2012.

Developments in Income and Expenses

Revenues totaled NIS 323 million in 2013, compared with NIS 300 million in 2012, an increase of 8%. For an explanation of the increase, see the item of income from credit-card transactions, below.

Income from credit-card transactions totaled NIS 317 million in 2013, compared with NIS 292 million in 2012, an increase of 9%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 268 million, compared with NIS 248 million in 2012, an increase of 8%, resulting from growth in the volume of activity in the Company's credit cards.
- Income in respect of credit-card holders totaled NIS 49 million, compared with NIS 44 million in 2012, an increase of 11%.

Net interest income totaled NIS 5 million in 2013, compared with NIS 7 million in 2012, a decrease of 29%, which mainly resulted from a decrease in the interest rate in Israel.

Other income totaled NIS 1 million in 2013, similar to 2012.

Expenses before payments to banks totaled NIS 184 million in 2013, compared with NIS 176 million in 2012, an increase of 5%. (For an explanation of the increase, see the items of operating expenses and marketing expenses, below.)

Expenses including payments to banks totaled NIS 266 million in 2013, compared with NIS 249 million in 2012, an increase of 7%. (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 1 million in 2013, compared with NIS 6 million in 2012, a decrease of approximately 83%. The decrease mainly resulted from optimization of the Company's credit portfolio.

Operating expenses totaled NIS 94 million in 2013, compared with NIS 91 million in 2012, an increase of 3%. The increase mainly resulted from expenses in respect of royalties to the international organization.

Sales and marketing expenses totaled NIS 62 million in 2013, compared with NIS 54 million in 2012, an increase of 15%. The increase mainly resulted from expenses for advertising and customer recruitment.

General and administrative expenses totaled NIS 27 million in 2013, compared with NIS 25 million in 2012, an increase of 8%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 82 million in 2013, compared with NIS 73 million in 2012, an increase of 12%. Most of the increase resulted from growth in the Company's activity.

The ratio of expenses to income before payments to banks reached 57.0% in 2013, compared with 58.7% in 2012.

Profit before tax totaled NIS 57 million in 2013, compared with NIS 51 million in 2012, an increase of 12%.

The return of profit before taxes on average equity reached 25.6% in 2013, compared with 27.7% in 2012.

The provision for taxes on profit totaled NIS 14 million in 2013, compared with NIS 13 million in 2012. The effective tax rate as a percentage of total operating profit before taxes reached 24.6% in 2013, compared with 25.5% in 2012.

Developments in Balance-Sheet Items

The balance sheet as at December 31, 2013 totaled NIS 2,338 million, compared with NIS 2,149 million on December 31, 2012.

Developments in the principal balance-sheet items:

	December 31			
	2013	2012	Change	
	In NIS millions		In NIS millions	%
Total balance sheet	2,338	2,149	189	9
Debtors in respect of credit-card activity, net	1886	1,734	152	9
Cash	12	13	(1)	(8)
Creditors in respect of credit-card activity	2,017	1,868	149	8
Subordinated notes	56	56	-	-
Equity	247	204	43	21

Debtors in respect of credit-card activity, net, totaled NIS 1,886 million as at December 31, 2013, compared with NIS 1,734 million at the end of 2012. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Cash totaled NIS 12 million as at December 31, 2013, compared with NIS 13 million at the end of 2012.

Subordinated notes totaled NIS 56 million as at December 31, 2013, similar to December 31, 2012.

Creditors in respect of credit-card activity totaled NIS 2,017 million as at December 31, 2013, compared with NIS 1,868 million at the end of 2012. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Equity totaled NIS 247 million on December 31, 2013, compared with NIS 204 million at the end of 2012. The change in equity resulted from profit in 2013.

The ratio of equity to the balance sheet reached 10.6% on December 31, 2013, compared with 9.5% on December 31, 2012.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 16.9% on December 31, 2013, compared with 15.3% on December 31, 2012.

The minimum capital ratio required by the Bank of Israel is 9%. Pursuant to the instructions of the Bank of Israel, the risk appetite of the Company as a part of the Bank Hapoalim Group has been defined as a ratio of total capital to risk-adjusted assets at a rate of 12.5%, in effect beginning in the first quarter of 2011.

Investments and Expenses of the Company for Information Technology

Software development costs are capitalized to fixed assets if the following can be measured reliably: development costs, technical feasibility of the software, expectation of future economic benefit from the development, and the Company's intention and 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 when they arise.

Definitions relevant to the information presented:

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

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

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

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

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

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

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

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

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	3	1	*-	4
Expenses for acquisitions or usage licenses not capitalized as assets	4	1	-	5
Outsourcing expenses	2	-	-	2
Depreciation expenses	*-	1	*-	1
Other expenses	8	2	1	12
Total	**17**	**5**	**1**	**24**

* Amount lower than NIS 0.5 million.

(1) Including communication infrastructures.

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

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

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

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

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	2	1	*-	3
Expenses for acquisitions or usage licenses not capitalized as assets	3(2)	-	-(2)	3
Outsourcing expenses	2	-	-	2
Depreciation expenses	*-	1	*-	1
Other expenses	8	2	1	11
Total	**15**	**4**	**1**	**20**

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

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

Balances of assets in respect of information technology (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) Reclassified.

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

A credit-card company issues credit cards to its customers (credit-card holders). Credit-card holders use the card as a means of payment to merchants, and the merchants provide the credit-card holders with goods or services. Customers join the credit-card system by signing a credit-card contract with the issuer and receiving the credit card. Credit-card holders make a commitment to repay amounts owed arising from their use of the credit card. The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services.

As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Europay, 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., Jerusalem Bank Ltd., and UBank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. See also "Restrictions and Supervision of the Company's Operations," below.

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: (1) the ability to issue credit cards under an international license; (2) collaboration with the Banks Under Arrangement for the distribution and issuance of credit cards, and collaboration with additional such banking corporations for the distribution of credit cards, including the integration of a bank card with the credit card issued to the customer; (3) brand image, prestige, and uniqueness in its field; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supportive 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 trademark, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and investments in technological infrastructures, including a supportive operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the structure of the credit-card industry in Israel, which has a high penetration rate; and (5) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

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

Products and Services

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 17 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 2013.

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 concierge services and 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, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, and the Life-Style Club.

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 have credit cards or who have credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition 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) provision of unique services, including 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: some merchants that do not accept its cards; 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 a clearing agreement with it, in return for a fee (called the "**merchant fee**"), and secures and transfers to the merchant the payments incurred by the credit-card holders who executed transactions using credit cards with that merchant.

As at the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Isracard, Europay, 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 clearing customers – 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. With regard to the Supervisor's draft concerning clearing licenses, see the section Additional Regulation, Section 6, below.

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from 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 17 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 2013.

Marketing and Sales

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

The 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. 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 fee policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to the merchant's unique needs; 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," below.

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, 2013		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	49	268	317
Inter-segmental fees	103	(103)	-
Total	**152**	**165**	**317**
Net interest income (expenses)	(*-)	5	5
Other income	1	*-	1
Total income	**153**	**170**	**323**
Expenses (income)			
Provisions for credit losses	1	(*-)	1
Operations	55	39	94
Sales and marketing	52	10	62
General and administrative	14	13	27
Payments to banks	35	47	82
Total expenses	**157**	**109**	**266**
(Loss) profit before taxes	**(4)**	**61**	**57**
Provision for taxes on profit	(1)	15	14
Net (loss) profit	**(3)**	**46**	**43**
Return on equity (percent net profit (loss) out of average capital)	(1.3)	20.6	19.3
Average balance of assets	1,978	268	2,246
Average balance of liabilities	117	1,906	2,023
Average balance of risk-adjusted assets	1,486	249	1,735

* 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, 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	*-	7	7
Other income (expenses)	1	(1)	*-
Total income	**145**	**118**	**263**
Expenses			
Provisions for credit losses	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	1,545	270	1,815
Average balance of liabilities	98	1,570	1,668
Average balance of risk-adjusted assets	1,287	195	1,482

* Amount lower than NIS 0.5 million.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's loss totaled NIS 3 million in 2013, compared with net profit of NIS 1 million in 2012.

The rate of negative return on average equity in 2013 was 1.3%, compared with a positive return on equity of 0.6% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 153 million in 2013, compared with NIS 151 million in 2012, an increase of 1%.

Income from fees totaled NIS 152 million in 2013, compared with NIS 149 million in 2012, an increase of 2%.

Net interest income amounted to an expense in an amount lower than NIS 0.5 million in 2013, similar to 2012.

Expenses before payments to banks totaled NIS 122 million in 2013, compared with NIS 116 million in 2012, an increase of 5%.

Expenses including payments to banks totaled NIS 157 million in 2013, compared with NIS 149 million in 2012, an increase of 5%.

The provision for credit losses totaled NIS 1 million in 2013, compared with NIS 5 million in 2012, a decrease of 80%, which mainly resulted from optimization of the Company's credit portfolio.

Operating expenses totaled NIS 55 million in 2013, compared with NIS 53 million in 2012, an increase of 4%.

Sales and marketing expenses totaled NIS 52 million in 2013, compared with NIS 46 million in 2012, an increase of 13%.

General and administrative expenses totaled NIS 14 million in 2013, compared with NIS 12 million in 2012, an increase of 17%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 35 million in 2013, compared with NIS 33 million in 2012, an increase of 6%.

The ratio of expenses to income before payments to banks reached 79.7% in 2013, compared with 76.8% in 2012.

Loss before taxes totaled NIS 4 million, compared with net profit of NIS 2 million in 2012.

The rate of negative return before taxes on average equity in 2013 was 1.8%, compared with a positive return of 1.1% in 2012.

The provision for taxes on profit in 2013 amounted to income in the amount of NIS 1 million, compared with an expense in the amount of NIS 1 million in 2012.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 46 million in 2013, compared with NIS 37 million in 2012, an increase of 24%. 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 20.6% in 2013, compared with 20.1% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 170 million in 2013, compared with NIS 149 million in 2012, an increase of 14%. The increase resulted from an increase in the volume of activity of the Company.

Income from fees totaled NIS 165 million in 2013, compared with NIS 143 million in 2012, an increase of 15%, 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 5 million in 2013, compared with NIS 7 million in 2012, a decrease of 29%.

Expenses before payments to banks totaled NIS 62 million in 2013, compared with NIS 60 million in 2012, an increase of 3%.

Expenses including payments to banks totaled NIS 109 million in 2013, compared with NIS 100 million in 2012, an increase of 9%.

Income in respect of credit losses totaled less than NIS 0.5 million in 2013, compared with an expense in the amount of NIS 1 million in 2012.

Operating expenses totaled NIS 39 million in 2013, compared with NIS 38 million in 2012, an increase of 3%.

Sales and marketing expenses totaled NIS 10 million in 2013, compared with NIS 8 million in 2012, an increase of 25%.

General and administrative expenses totaled NIS 13 million in 2013, similar to 2012.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 47 million in 2013, compared with NIS 40 million in 2012, an increase of 18%. The increase resulted from growth in the Company's revenues.

The ratio of expenses to income before payments to banks reached 36.5% in 2013, compared with 40.3% in 2012.

Profit before tax totaled NIS 61 million in 2013, compared with NIS 49 million in 2012, an increase of 24%.

The return of profit before taxes on average equity reached 27.4% in 2013, compared with 26.6% in 2012.

The provision for taxes on profit totaled NIS 15 million in 2013, compared with NIS 12 million in 2012, an increase of 25%.

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 in 2013 remained the same as at the end of 2012*.

	2013	2012
Average positions on a monthly basis	162	162
Total positions at year end	162	162

* 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.

Trends in Human Resources

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

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

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

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

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

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

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

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

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

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

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

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

Think Innovation – Cultivating Innovation Within the Organization

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

Everyone is an Ambassador

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

Ethical Code

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

Professional Training

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

Instilling a Culture of Performance Evaluation and Surveys

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

Occupational Stability

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

Promotion of Diversity

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

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

An economic plan for 2013-2014 (the Budget Law) was approved by the Knesset plenum on July 30, 2013. Among other matters, the plan includes an increase of the rate of corporation tax from 25% to 26.5% beginning January 1, 2014. For further details, see Note 22 to the Financial Statements.

Other Matters

1. With regard to the bonus plan for senior executives, see Note 11.B to the Financial Statements.

2. With regard to the agreement with the employees' union, see Note 11.F to the Financial Statements.

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and clearing charge cards, operating a charge-card system, and extending credit, laws and directives related to its activity in these areas apply to the Company. These laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of issuance and clearing of charge cards. In addition, various directives issued by the Supervisor of Banks and applicable to credit-card companies apply to the

Company, such as Proper Conduct of Banking Business Directive No. 470 ("Charge Cards"), which regularizes the operation of credit-card companies that are auxiliary banking corporations and of banking corporations with regard to the operation of charge-card systems. Additional Proper Conduct of Banking Business Directives also apply to credit-card companies.

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

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

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

Antitrust Issues

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.

Additional Regulation

1. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. This instruction applies beginning with the financial statements as at September 30, 2011. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Proper Conduct of Banking Business Directive No. 313).

2. In December 2011, a government bill was passed in the first reading and transferred to the Constitution, Law, and Justice Committee to be prepared for the second and third readings. The bill sets forth several amendments to the Prohibition of Money Laundering Law and the Prohibition of Terrorism Financing Order, including with regard to reporting duties and the duty to receive identifying information. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill.

3. The Banking Rules concerning fees were published in November 2012, and took effect in January 2013. Among other matters, the rules cancel the fee for changing debiting dates of credit cards. In addition, the service provided by a clearer to a discounting service provider was declared a service subject to supervision. The Company estimates that this amendment will have no material effect on the Company. A report summarizing the recommendations of the Committee for the Examination of Increasing Competition in the Banking Industry was submitted to the Minister of Finance and to the Governor of the Bank of Israel on March 19, 2013; the Economics Committee discussed this matter in May 2013.

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

5. In January 2013, the Supervisor of Banks issued a circular concerning an amendment to Proper Conduct of Banking Business Directive No. 342, "Liquidity Risk Management." The circular was issued as part of the Supervisor of Banks' efforts to strengthen the robustness of the banking system. The Company is also examining the effects of the Basel III directives concerning liquidity, including an evaluation of the quantitative effect on compliance with management requirements.

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

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

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

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

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

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

12. In November 2011, a government bill was passed in a first reading and transferred to the Constitution Committee for preparation for the second and third reading, concerning the establishment of an administrative enforcement mechanism to serve as an alternative to enforcement in a criminal proceeding with regard to violations of the Protection of Privacy Law. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill, and transferred the bill to the Constitution, Law, and Justice Committee for preparation for the second and third reading.

13. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill. The Constitution Committee will hold a discussion in February 2014 in preparation for the second and third reading.

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

15. In August 2013, the Supervisor of Banks issued directives concerning the delivery of messages to customers by electronic means, including the delivery of monthly statements

to customers of credit-card companies. Among other matters, the directives aim to improve service to customers and to increase efficiency and reduce costs in the production and delivery of messages sent to customers.

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

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

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

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

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

21. In February 2014, the Economics Committee passed a private bill for a second and third reading, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill.

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

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

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

Legal Proceedings and Pending Claims

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

2. **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 loyalty club strategy.
5. Expansion in the area of credit and financing for merchants.
6. Maintaining the Company's image and assets.
7. Extending collaborations with merchants.
8. Ongoing improvement in quality of service to banks, loyalty clubs, merchants, and cardholders.
9. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.
10. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.
11. High-quality systems of risk management, credit control, and fraud prevention.
12. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

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

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

The Risk Management Committee of the Board of Directors convenes on a quarterly basis. In addition, the Risk Management Forum is headed by the CEO. The forum convenes quarterly, with the aim of ensuring adequate control coverage for risk-management processes and formulating an ongoing process for the improvement of effectiveness of risk-management control mechanisms at the Company, at the level of the risk-taking divisions, the independent control units in the divisions, and the Risk Management and Security Division.

Operational Risks

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

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

The business activity of the Company is exposed to market risks arising from volatility in interest rates, exchange rates, 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, and Directive No. 339, "Market and Interest Rate Risk," adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in May 2013. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in interest rates, the CPI, and foreign exchange rates. 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. The Company believes that its exposure to market risks is immaterial.

A. Linkage Base Risk

This risk is defined as exposure to currencies and to the consumer price index, expressed as the loss that may occur as a result of the effect of changes in currency exchange rates and in rates of the consumer price index on the difference between the value of assets and liabilities. The Company applies a comprehensive policy for the management of market risks in Israeli and foreign currency, designed to support the achievement of business objectives while assessing and limiting the losses that may arise from exposure to market risks.

B. Interest-Rate Exposure

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

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

	December 31, 2013				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	2,245	9	58	4	2,316
Financial liabilities	2,007	9	54	3	2,073
Net fair value of financial instruments	**238**	**(*-)**	**4**	**1**	**243**

	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**

* 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, 2013						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	239	(*-)	4	1	244	1	0.4
Immediate parallel increase of 0.1%	238	(*-)	4	1	243	*-	-
Immediate parallel decrease of 1%	237	(*-)	4	1	242	(1)	(0.4)

* 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.

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

	December 31, 2012						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	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.

C. Exposure to the value of securities

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

D. Derivative Financial Instruments

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

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 April 2013. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") and Proper Conduct of Banking Business Directive No. 342 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

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

Credit Risk

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

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

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

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

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

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

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

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

Credit Risk in Respect of Exposure to a Group of Borrowers

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Borrower and of a Group of Borrowers" (hereinafter: "**Directive 313**"), there is no group of borrowers that exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at December 31, 2013.

Credit Control Unit

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

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 transactions executed by tourists in Israel, less balances of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization.

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

The Company has implemented the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and allowance for credit losses from January 1, 2011.

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

	Balance as at December 31, 2013	Balance as at December 31, 2012
	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	2
Examined on a collective basis	1	1
Total impaired debts not accruing interest income	3	3
Total non-performing assets	**3**	**3**
2. Unimpaired debts in arrears of 90 days or more	-	-

Risk and Credit Indices

		December 31	
		2013	2012
		In percent	
(A)	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit-card activity	0.16	0.17
(B)	Balance of unimpaired debtors in respect of credit-card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit-card activity	-	-
(C)	Balance of allowance for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit-card activity	0.53	0.57
(D)	Balance of allowance for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity not accruing interest income	*-	*-
(E)	Problematic credit risk as a percentage of total credit risk	0.04	0.05
(F)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.06	0.37
(G)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.06	0.14
(H)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the allowance for credit losses for debtors in respect of credit-card activity	10.00	23.36

* Greater than 100%.

Capital Measurement and Adequacy

The Company assesses its capital adequacy. The Company uses the standardized approach in the calculation of capital adequacy, in accordance with Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"). The assessment is performed by a summation of capital and sorting of assets by risk rates and market-risk evaluations, with the addition of operational risk.

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

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

Basel III

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

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

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

♦ A change in accounting for debts in arrears.

Further details regarding capital instruments issued by the Company are available on the Company's website, at https://www.americanexpress.co.il/AnnualReportsHebrew.

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. See also "Basel III," above.

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

The following table lists the required disclosures under Pillar III.

Capital Adequacy

	December 31, 2013	December 31, 2012
1. Capital for the calculation of the capital ratio		
	In NIS millions	
Core capital and Tier 1 capital	247	204
Tier 2 capital*	56	56
Total overall capital	**303**	**260**

* 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, 2013		December 31, 2012	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1,435	129	1,393	125
Market risks – foreign currency exchange rate risk	5	1	4	*-
Operational risk	348	31	304	28
Total weighted balances of risk-adjusted assets	**1,788**	**161**	**1,701**	**153**

* Amount lower than NIS 0.5 million.

3. Ratio of capital to risk-adjusted assets

	December 31, 2013	December 31, 2012
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	13.8	12.0
Ratio of total capital to risk-adjusted assets	16.9	15.3
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

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

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

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

	According to the directives of the Supervisor of Banks applicable December 31, 2013 – Basel II	Cancellation of core capital and recognition of common equity Tier 1 capital	Subordinated notes	Collective allowance for credit losses	Deferred taxes	According to Basel III directives
			In NIS millions			
A. Regulatory capital after deductions and supervisory adjustments						
Core capital	247	(247)	-	-	-	-
Common equity Tier 1 capital	-	247	-	-	-	247
Tier 2 capital	56	-	(11)	12	-	57
Total capital	**303**	**-**	**(11)**	**12**	**-**	**304**
B. Weighted balances of risk-adjusted assets						
Credit risk	1,435	-	-	7	12	1,454
Market risk	5	-	-	-	-	5
Operational risk	348	-	-	-	-	348
Total weighted balances of risk adjusted assets	**1,788**	**-**	**-**	**7**	**12**	**1,807**
C. Ratio of capital to risk-adjusted assets						
Ratio of core capital to risk-adjusted assets	13.8%	(13.8%)	-	-	-	-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-	13.8%	-	**-	(0.1%)	13.7%
Ratio of total capital to risk-adjusted assets	16.9%	-	(0.6%)	0.6%	(0.1%)	16.8%
Minimum capital ratio required in the directives of the Supervisor of Banks						
Ratio of core capital to risk-adjusted assets	7.5					-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-					*7.5%
Ratio of total capital to risk-adjusted assets	9.0%					*9.0%

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

* Rate lower than 0.1%.

Applicability of Implementation

Requirements regarding capital measurement and adequacy apply to the Company. In addition, the Company is consolidated by Bank Hapoalim, which is also subject to these requirements. 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" (211-201).

Structure of Capital

Structure of Regulatory Capital

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

Capital measurement for the purposes of this directive is based on the division of capital into Tier 1 capital and Tier 2 capital. Tier 1 capital consists of 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 Company; and of the amount recognized as Tier 2 capital, as noted, 20% shall be deducted at the beginning of each year in the last five years before their maturity date (in the event of a subordinated note settled in installments, such a deduction should be made from each installment).

Limits on the Capital Mix

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

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

Structure of Capital

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

	December 31	
	2013	2012
	In NIS millions	
Tier 1 capital		
Paid-up common share capital	*-	*-
Share premium	35	35
Retained earnings	212	169
Other capital instruments	*-	*-
Total core capital and Tier 1 capital	247	204
Tier 2 capital**	56	56
Total eligible capital	**303**	**260**

* 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, including Basel III, according to the required allocation under Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"), with reference to the capital-adequacy targets and risk appetite.

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2013		December 31, 2012	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	921	83	893	80
Corporations	102	9	104	9
Retail loans to individuals	389	35	377	34
Small businesses	8	1	7	1
Other assets	15	1	12	1
Total credit risk	1,435	129	1,393	125
Market risks – foreign currency exchange rate risk	5	1	4	*-
Operational risk	348	31	304	28
Total weighted balances of risk-adjusted assets / capital requirements	**1,788**	**161**	**1,701**	**153**

* Amount lower than NIS 0.5 million.

	December 31, 2013	December 31, 2012
Total capital ratio and Tier 1 capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	303	260
Ratio of core capital and Tier 1 capital to risk-adjusted assets	13.8%	12.0%
Ratio of total capital to risk-adjusted assets	16.9%	15.3%
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 United States accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. For further details, see Note 1.E.3 to the Financial Statements.

Credit Risk Management

Credit risk is one of the risks managed, monitored, and controlled by the Company, as a necessary characteristic of its activity as a company engaged in granting credit. The credit risk management process aids the Company in 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 Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers." Applying this directive and setting internal limits reduces borrower concentration risk.

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

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

- The Company tracks damages arising from the abuse of credit cards. See Note 19 to the Financial Statements.

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

Principles of Credit Concentration Risk Management

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

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

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 primarily from:

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

Independent Supervision

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

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

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

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

Off-Balance-Sheet Exposures

The Company used a credit conversion factor (CCF) to convert its off-balance-sheet credit exposures into credit exposures under Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy), as described below:

- Unutilized credit facilities of credit cards for holders of retail cards – 10%*.
- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders, 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 Risk

Credit Exposures

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

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

	December 31, 2013				
	Balance-sheet credit risk			Off-balance-sheet credit risk	
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Total overall credit exposure
	In NIS millions				
Banking corporations	426	12	438	-	438
Corporations	341	-	341	824	1,165
Retail loans to individuals	1,501	-	1,501	7,075	8,576
Small businesses	52	-	52	124	176
Government	*-	-	*-	1	1
Other assets(1)	-	16	16	-	16
Total exposures	**2,320**	**28**	**2,348**	**8,024**	**10,372**

	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	Total overall credit exposure
	In NIS millions				
Banking corporations	391	13	404	-	404
Corporations	286	-	286	840	1,126
Retail loans 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**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

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

	December 31, 2013				
	Balance-sheet credit risk			Off-balance-sheet credit risk	
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Total overall credit exposure[2]
	In NIS millions				
Banking corporations	412	22	434	-	434
Corporations	308	-	308	817	1,125
Retail loans to individuals	1,471	-	1,471	7,141	8,612
Small businesses	52	-	52	132	184
Government	*-	-	*-	1	1
Other assets[1]	-	14	14	-	14
Total exposures	**2,243**	**36**	**2,279**	**8,091**	**10,370**

	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	Total overall credit exposure[2]
	NIS millions				
Banking corporations	362	20	382	-	382
Corporations	143	-	143	318	461
Retail loans 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**

* 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 allowance for credit losses) by contractual term to maturity (the last period), according to the principal types of financial instruments.

	December 31, 2013					
	Classified by term to maturity, in NIS millions					
					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	12	-	-	12	-	12
Credit:						
Debtors in respect of credit cards	1,777	54	10	1,841	1	1,841
Credit to merchants	28	*-	*-	28	2	30
International credit-card organization	22	-	-	22	-	22
Income receivable and others	3	-	-	3	-	3
Other assets	426	-	-	426	8	434
Non-monetary assets	-	-	-	-	6	6
Off balance sheet – credit facilities	8,023	1	-	8,024	-	8,024
Total	**10,291**	**55**	**10**	**10,356**	**17**	**10,372**

	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**

* 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:

Exposure – credit	Credit risk	Amount of impaired loans	Amount of unimpaired loans in arrears: Over 30 days to 90 days	Amount of unimpaired loans in arrears: 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
		December 31, 2013						
		In NIS millions						
Retail to individuals	Balance sheet	3	1	-	2	7	*-	1
Small businesses	Balance sheet	*-	*-	-	*-	*-	*-	*-
Corporations	Balance sheet	*-	*-	-	*-	1	*-	*-
Banking corporations	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities	Off-balance sheet	-	-	-	-	4	*-	-
Total		**3**	**1**	**-**	**2**	**12**	***-**	**1**

Exposure – credit	Credit risk	Amount of impaired loans	Amount of unimpaired loans in arrears: Over 30 days to 90 days	Amount of unimpaired loans in arrears: 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
		December 31, 2012						
		In NIS millions						
Retail to individuals	Balance sheet	3	2	-	2	7	1	1
Small businesses	Balance sheet	*-	*-	-	*-	*-	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**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM)

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

Credit Risk Weighting

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

Before credit-risk mitigation

		December 31, 2013						
	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		In NIS millions						
Retail to individuals	Unrated	-	-	-	8,565	-	*-	8,565
Small businesses	Unrated	-	-	-	176	-	*-	176
Corporations	Unrated	-	-	-	-	1,141	*-	1,141
	Rated	-	-	21	-	*-	-	21
Banking corporations	Unrated	-	425	1	-	-	-	426
	Rated	-	3	9	-	-	-	12
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	1	-	-	-	15	-	16
Total		**2**	**428**	**31**	**8,741**	**1,156**	***-**	**10,358**

After credit risk mitigation

		December 31, 2013						
	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		In NIS millions						
Retail to individuals	Unrated	-	-	-	2,328	-	*-	2,328
Small businesses	Unrated	-	-	-	32	-	*-	32
Corporations	Unrated	-	-	-	-	159	*-	159
	Rated	-	-	21	-	-	-	21
Banking corporations	Unrated	-	743	2,096	-	-	-	2,839
	Rated	-	462	4,500	-	-	-	4,962
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	1	-	-	-	15	-	16
Total		**2**	**1,205**	**6,617**	**2,360**	**174**	***-**	**10,358**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM) (cont.)

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

Credit Risk Weighting

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

Before credit-risk mitigation

	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.

Use of Eligible Collateral for Credit Risk Mitigation

Types of exposures used and exposures covered (after deduction of the allowance for credit losses)

			December 31, 2013			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of the Banks Under Arrangement		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	1,493	(1,175)	-	318
	Off balance sheet	Credit facility	7,072	(5,062)	-	2,010
Small businesses	Balance sheet	Credit	52	(44)	-	8
	Off balance sheet	Credit facility	124	(100)		24
Corporations	Balance sheet	Credit	339	(244)	-	95
	Off balance sheet	Credit facility	823	(738)	-	85
Banking corporations	Balance sheet	Credit	426	-	1,463	1,889
	Balance sheet	Deposits	12	-	-	12
	Off balance sheet	Credit facility	-	-	5,900	5,900
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	1	-	-	1
Other assets	Balance sheet	Other assets	16	-	-	16
Total			**10,358**	**(7,363)**	**7,363**	**10,358**

* Amount lower than NIS 0.5 million.

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

Types of exposures used and 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.

Credit Risk Weighting

The Company implements the standardized approach to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings by international rating agencies. In accordance with the standardized approach, the Company uses ratings by the international rating agencies Moody's, S&P, and Fitch. Each agency's scale is adjusted to the risk groups using standardized mapping.

Credit Risk Mitigation (CRM)

The Company has repayment sources (means of repayment of customers’ debts) which are not recognized under Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the standardized approach. However, in its routine operations the Company considers these repayment sources as existing fixed 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 No. 201-211 ("Capital Measurement and Adequacy"). The Company does not have a trading portfolio, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

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

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

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

- **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an investment committee; the Audit Committee; the Risk Management Committee of the Board of Directors; and the Board of Directors.
- **Procedures and policies** – The areas of responsibility and authority in the area of risk management assigned to Management, the Board of Directors, the Audit Committee, the Risk Management Committee, and specialized functions such as the Risk Manager are formalized in clear, accessible documentation, with the aim of ensuring uniform implementation in the organization.
- **Risk management processes** – Processes are in place for the routine identification of exposures, risk assessment, examination of controls, and risk minimization processes (including limits).
- **Tools and technologies** – A computerized system supporting risk assessment, risk management, reporting, monitoring, and planning.
- **Reporting and monitoring of risks** – Reports from each business line of the Company to the central Market and Liquidity Risk Management Unit in a structured process, in which exposures are reported to Management and to the Board of Directors; proper intra-organizational communication channels ensure timely reporting of issues that need to be addressed.

For the purpose of the control and management of market and liquidity risk, the Financial

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager (VP Finance and Administration)

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

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

Chief Risk Officer

The Chief Risk Officer of the Company is responsible, as part of his duties, among other matters, for control of the market and liquidity risks of the Company. Within this framework, he is responsible for controlling the Company's market risk management policies and processes. The Chief Risk Officer assists the Board of Directors of the Company in approving and examining the market risk management strategy and the policy rules in this area, with reference to new products and processes at the Company. The Chief Risk Officer assists Management in the control of the market risk strategy approved by the Board of Directors by examining compliance with policies and procedures for the identification, measurement, monitoring, and control of market risks. The Chief Risk Officer reports directly to the CEO of the Company and performs independent control of the exposure to market risks.

Nature and Volume of Risk Reporting and Measurement Systems

A risk management system (RMS) is in use as a strategic instrument for the management of market risks to which the Company is exposed as a result of gaps between the nature of assets and liabilities.

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital Requirement in Respect of Foreign Currency Exchange Rate Risk

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

* Amount lower than NIS 0.5 million.

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

Operational Risk

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

Capital Requirement in Respect of Operational Risk

	Capital requirement	
	December 31, 2013	**December 31, 2012**
	In NIS millions	
Operational risk	31	28

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

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

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

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

- Full mapping of all operational processes at the Company.
- Classification of the processes into groups, according to the classification methodology in Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy").
- Mapping of all controls relevant to each risk, including residual risk, and additional recommended controls if necessary.
- Rating of risk levels in each process on a scale of the level of damage / expected frequency.
- Implementation of a multi-year action plan to reduce material risks and increase controls where necessary.

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

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

All events of damage at the Company are collected into a single database. All material events (the materiality threshold as at December 2013 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

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

Disclosure Regarding Share Holdings in the Banking Book

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

Prohibition of Money Laundering and Financing of Terrorism

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

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 2001.
- The Terrorism Financing Prohibition Law, 2005.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, "Prevention of Money Laundering and Terrorism Financing and Identification of Customers."
- The Order on Trade with the Enemy.

The Company applies monitoring and controls with regard to private customers and merchants in general, and those defined as high risk in particular. The Company maintains routine monitoring and controls in several areas, in order to ensure that it possesses the required information and documents, in accordance with the directives. Any gaps are addressed and resolved.

Employees are required to stay current on this topic through an annual training program and an up-to-date computer-based tutorial. Individual training sessions are conducted as necessary at the various departments as well as at external entities that are in contact with customers and have a connection to the issue of the prohibition of money laundering and terrorism financing.

The Company's procedures are updated and expanded from time to time in order to fully cover the relevant topics in accordance with the requirements. The Compliance Officer coordinates the Compliance Committee, the Compliance Trustees Forum, and the Money Laundering and Terrorism Financing Prohibition Team.

Routine reports are submitted to the Israel Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the directives of the Order) and unusual transactions. Monthly reports are submitted to the Bank of Israel, in accordance with requirements.

Critical Accounting Policies

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

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

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

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 2013.

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, 2013 is NIS 56 million (December 31, 2012: NIS 49 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 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” and “collective allowance.” The Company also examines the overall fairness of the allowance for credit losses.

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.	Low
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 reputation risk. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's revenue and capital resulting from unexpected events such as legal claims, including class-action suits, compliance events, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Medium
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low

Risk factor		Brief description	Degree of effect of risk factor
7.	Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected in the loss of customers or reduction of customers' activity 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 debts owed to it by customers of the relevant bank.	Medium
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.

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

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

Disclosure Regarding the Internal Auditor

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

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

The appointment and termination of internal audit employees are subject to approval by the Internal Auditor; internal audit employees receive instructions on audit-related matters only from the Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; Internal Audit employees are authorized to sign on behalf of the Company only documents related to audit work, as required under Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function." The Internal Auditor is a full-time employee of Bank Hapoalim, with the rank of a Member of the Board of Management, Deputy to the General Manager. The appointment of the Internal Auditor was approved by the Board of Directors of the Company on December 29, 2009, following the recommendation and approval of the Audit Committee on December 29, 2009.

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

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2013 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company. The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by 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 – 46 audit days were invested directly at the Company in 2013. 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 No. 307, "Internal Audit Function"), professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Audit Committee and of the Board of Directors.

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

Access to information – Internal Audit has unrestricted access to all information at the Company, as necessary to perform its duties.

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

Summary of Internal Audit activity – A summary of audit activities for 2012 was submitted to the Company in February 2013. A summary of audit activities for 2013 is expected to be submitted to the Audit Committee during the first quarter of 2014.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

During the meetings (the meeting of the Audit Committee and the meeting of the Board of Directors), the financial statements are discussed and approved. The Head of Finance and Administration reviews the Company's business results and financial position as well as main items in the financial statements, the plausibility of the data, an analysis of the results in relation to the results of the corresponding period in the previous year and in relation to the budget, and material changes in the accounting principles applied. In addition, the Chief Accountant addresses material issues in financial reporting, material evaluations, and critical estimates implemented in the financial statements.

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

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

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

The Board of Directors

In 2013, the Board of Directors of the Company continued to set forth the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

The Board of Directors approved the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee); addressed the organizational structure of the Company; established policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and exercised 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.

16 meetings of the plenum of the Board of Directors and 9 meetings of the Audit Committee were held in 2013.

Directors with Accounting and Financial Expertise

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

Note that at the reporting date, the number of directors with accounting and financial expertise, according to their education, qualifications, and experience, is five. 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

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

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

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.

Shimon Gal

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

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

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

Director with accounting and financial expertise.

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

Avi Idelson

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

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, Mehadrin Ltd., and Avi Idelson Management and Consulting Ltd.

Chairperson of the Audit Committee of the Board of Directors of Isracard; member of the following board committees at Isracard: IT Committee, Credit Committee, Remuneration Committee; Chairperson of the Audit Committee of the Board of Directors of Europay; from November 25, 2013, Chairperson of the Remuneration Committee of the Board of Directors at Isracard and Europay. Member of the balance sheet committee, audit committee, and remuneration committee of the board of directors of Mehadrin Ltd.

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

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

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

Courses in banking and management at Bank Hapoalim.

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

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

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

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

Chairperson of the IT Committee of the Board of Directors of Isracard; member of the following committees of the Board of Directors of Isracard: Audit Committee, Risk Management Committee; 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: IDB Holdings Ltd.; however, he no longer serves there.

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

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

Director with accounting and financial expertise.

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

Ran Oz

Partner at Viola Credit.

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

From 2009 to 2013, served as a member of the Board of Management of Bank Hapoalim B.M., in the position of Chief Financial Officer. Also served as chairperson of the board of directors of the following companies: Diur B.P. Ltd., Poalim Trust Services Ltd.

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

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

Ronny Shaten

Chairperson 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.

Chairperson of the Audit Committee of the Board of Directors.

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

In the last five years or during part of that period, served as chairperson of the board at A.M.S. Electronics Ltd. and as a member of the board of directors of the following companies: Isracard, Europay, 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

Member of the Board of Directors of Poalim Express from October 31, 2011. Also a member of the Credit Committee of the Board of Directors of the Company.

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

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

Member of the board of directors of Isracard and Europay from May 29, 2012. Member of the Audit Committee of the Board of Directors of Isracard and Europay; member of the Credit Committee and the Remuneration Committee of the Board of Directors of Isracard.

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.

Itzhak Amram

Member of the Board of Directors of the Company from December 16, 2013. Member of the Risk Management Committee of the Board of Directors of the Company.

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

Also serves as an external director of Isracard and Europay under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, and as a member of the Audit Committee of the Board of Directors of Isracard and Europay.

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

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

Rafi Raphael Served as a member of the Board of Directors of the Company from May 25, 1998 to August 23, 2013.

Senior Members of Management

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

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

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

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

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

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

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

Head of Customer Service.

Member of the board of directors of Tzameret Mimunim Ltd. from April 4, 2012.

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

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

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

Amir Kushilevitz-Ilan

Member of the Management of the Company from February 2011.

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

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

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

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

Vicky Levi

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

Head of Commerce.

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

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

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

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

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

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

Investment advisor certified by the Israel Securities Authority.

Completed a directors' course at the Interdisciplinary Center Herzliya.

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

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.

Ronen Zaretsky

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

Head of Technology.

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

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

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

Graduate of the IDF Command and Staff College.

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

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

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

Ron Cohen

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

Head of Credit and Financial Services.

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

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

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

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

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

Ram Gev

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

Head of Finance and Administration.

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

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

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

C.P.A.

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

Ron Weksler

Employment at the Company ended on October 31, 2013.

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

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the “Sarbanes-Oxley Act,” enacted in the United States. The provisions of these two sections of the law were consolidated by the Supervisor of Banks in Proper Conduct of Banking Business Directive No. 309 in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2013, there was no change in the Company’s internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company’s internal controls over financial reporting.

Wages and Benefits of Officers

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]

	2013	2012
	In NIS thousands	
For audit activities[3]:		
Joint auditors	420	429
For tax services[4]:		
Joint auditors	29	30
Total remuneration of auditors	**449**	**459**

(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 and tax consulting.

Shimon Gal
Chairperson of the Board of Directors

Dov Kotler
Chief Executive Officer

Tel Aviv, February 27, 2014.

Poalim Express Ltd.

Management's Review

For the Year Ended December 31, 2013

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Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

NIS millions

	December 31				
	2013	**2012**	**2011**	**2010**	**2009**
Assets					
Cash	12	13	25	205	195
Debtors in respect of credit-card activity	1,896	1,744	1,594	1,492	1,243
Allowance for credit losses	(10)	(10)	(7)	(8)	(9)
Debtors in respect of credit-card activity, net	1,886	1,734	1,587	1,484	1,234
Computers and equipment	2	2	2	1	1
Other assets	438	400	337	88	4
Total assets	**2,338**	**2,149**	**1,951**	**1,778**	**1,434**
Liabilities					
Credit from banking corporations	3	4	1	2	6
Creditors in respect of credit-card activity	2,017	1,868	1,708	1,566	1,307
Subordinated notes	56	56	58	56	25
Other liabilities	15	17	18	12	11
Total liabilities	**2,091**	**1,945**	**1,785**	**1,636**	**1,349**
Capital	247	204	166	142	85
Total liabilities and capital	**2,338**	**2,149**	**1,951**	**1,778**	**1,434**

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

NIS millions

	For the year ended December 31				
	2013	**2012**	**2011**	**2010**	**2009**
Income					
From credit-card transactions	317	292	256	223	193
Net interest income	5	7	7	2	2
Other income	1	1	*-	1	*-
Total income	**323**	**300**	**263**	**226**	**195**
Expenses					
Provision for credit losses	1	6	4	1	2
Operating expenses	94	91	82	72	57
Sales and marketing expenses	62	54	48	50	32
General and administrative expenses	27	25	22	19	18
Payments to banks	82	73	63	54	55
Total expenses	**266**	**249**	**219**	**196**	**164**
Profit before taxes	57	51	44	30	31
Provision for taxes on profit	14	13	9	8	8
Net profit	**43**	**38**	**35**	**22**	**23**
Basic and diluted net profit per common share (in NIS)	**309**	**275**	**249**	**168**	**224**

* Amount lower than NIS 0.5 million.

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

Addendum 3

Reported amounts

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	-	4	-	-	5	-	227	7	3.08
Debtors in respect of credit-card activity(3)	19	2	10.53	30	2	6.67	21	2	9.52
Other assets	419	1	0.24	365	2	0.55	92	1	1.09
Total interest-bearing assets	**438**	**7**	**1.60**	**395**	**9**	**2.28**	**340**	**10**	**2.94**
Non-interest-bearing debtors in respect of credit cards	1,778			1,647			1,460		
Other non-interest-bearing assets(4)	30			28			15		
Total assets	**2,246**			**2,070**			**1,815**		

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

(2) The Company has no activities outside Israel.

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

(4) Includes derivative instruments and non-monetary assets; net of the allowance for credit losses.

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

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

Addendum 3 (cont.)

Reported amounts

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	4	-	-	5	(*-)	-	4	(1)	(25.00)
Subordinated notes	57	(2)	(3.51)	57	(2)	(3.51)	57	(2)	(3.51)
Other liabilities	*-	(*-)	-	*-	(*-)	-	4	(*-)	-
Total interest-bearing liabilities	**61**	**(2)**	**(3.28)**	**62**	**(2)**	**(3.23)**	**65**	**(3)**	**(4.62)**
Non-interest-bearing creditors in respect of credit cards	1,945			1,807			1,582		
Other non-interest-bearing liabilities(3)	17			17			21		
Total liabilities	**2,023**			**1,886**			**1,668**		
Total capital means	**223**			**184**			**147**		
Total liabilities and capital means	**2,246**			**2,070**			**1,815**		
Interest spread			(1.68)			(0.95)			(1.68)
Net return on interest-bearing assets in Israel	438	5	1.14	395	7	1.77	340	7	2.06

* Amount lower than NIS 0.5 million.

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

(2) The Company has no activities outside Israel.

(3) Including derivative instruments, non-monetary liabilities, and the allowance for credit losses in respect of off-balance-sheet financial instruments.

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

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

Addendum 3 (cont.)

Reported amounts

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

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance[(1)]	Interest income (expenses)	Rate of income	Average balance[(1)]	Interest income (expenses)	Rate of income	Average balance[(1)]	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	438	7	1.60	395	9	2.28	340	10	2.94
Total interest-bearing liabilities	57	(2)	(3.51)	58	(2)	(3.45)	62	(3)	(4.84)
Interest spread			(1.91)			(1.17)			(1.90)
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	-	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	4	(*-)	-	4	(*-)	-	3	(*-)	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	438	7	1.60	395	9	2.28	340	10	2.94
Total interest-bearing liabilities	61	(2)	(3.28)	62	(2)	(3.23)	65	(3)	(4.62)
Interest spread			(1.68)			(0.95)			(1.68)

* Amount lower than NIS 0.5 million.

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

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

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

Addendum 3 (cont.)

Reported amounts

Analysis of Changes in Interest Income and Interest Expenses

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

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

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

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

* Amount lower than NIS 0.5 million.

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

The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

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

Exposure of the Company to Changes in Interest Rates as at December 31, 2013

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	1,480	363	340	62	-
Total fair value	**1,480**	**363**	**340**	**62**	**-**
Financial liabilities:					
Financial liabilities	1,126	402	366	92	13
Total fair value	**1,126**	**402**	**366**	**92**	**13**
Financial instruments, net					
Exposure to changes in interest rates in the segment	354	(39)	(26)	(30)	(13)
Cumulative exposure in the segment	354	315	289	259	246
Linked Israeli currency					
Financial assets:					
Financial assets	2	3	4	*-	-
Total fair value	**2**	**3**	**4**	***-**	**-**
Financial liabilities:					
Financial liabilities	2	3	4	*-	-
Total fair value	**2**	**3**	**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
	-	-	2,245	2.00%	0.14
	-	**-**	**2,245**	**2.00%**	**0.14**
	-	8	2,007	2.19%	0.22
	-	**8**	**2,007**	**2.19%**	**0.22**
	-	(8)	238		
	246	238			
	-	-	9	(0.61%)	0.27
	-	**-**	**9**	**(0.61%)**	**0.27**
	-	-	9	(0.61%)	0.26
	-	**-**	**9**	**(0.61%)**	**0.26**
	-	-	(*-)		
	(*-)	(*-)			

Exposure of the Company to Changes in Interest Rates as at December 31, 2013 (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	69	(7)	*-	*-	-
Total fair value	**69**	**(7)**	***-**	***-**	**-**
Financial liabilities:					
Financial liabilities	53	2	*-	*-	-
Total fair value	**53**	**2**	***-**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	16	(9)	*-	*-	-
Cumulative exposure in the segment	16	7	7	7	7
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,551	359	344	62	-
Total fair value	**1,551**	**359**	**344**	**62**	**-**
Financial liabilities:					
Financial liabilities	1,181	407	370	92	13
Total fair value	**1,181**	**407**	**370**	**92**	**13**
Financial instruments, net					
Exposure to changes in interest rates in the segment	370	(48)	(26)	(30)	(13)
Cumulative exposure in the segment	370	322	296	266	253

* 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
	-	-	62	0.16%	0.03
	-	**-**	**62**	**0.16%**	**0.03**
	-	2	57	0.13%	0.02
	-	**2**	**57**	**0.13%**	**0.02**
	-	(2)	5		
	7	5			
	-	-	2,316	1.97%	0.14
	-	**-**	**2,316**	**1.97%**	**0.14**
	-	10	2,073	2.16%	0.21
	-	**10**	**2,073**	**2.16%**	**0.21**
	-	(10)	243		
	253	243			

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			

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

Addendum 5

Reported amounts

NIS millions

	2013			
	Q4	Q3	Q2	Q1
Assets				
Cash	12	30	24	20
Debtors in respect of credit-card activity	1,896	1,815	1,793	1,827
Allowance for credit losses	(10)	(9)	(10)	(10)
Debtors in respect of credit-card activity, net	1,886	1,806	1,783	1,817
Computers and equipment	2	2	2	2
Other assets	438	434	422	393
Total assets	**2,338**	**2,272**	**2,231**	**2,232**
Liabilities				
Credit from banking corporations	3	8	3	2
Creditors in respect of credit-card activity	2,017	1,957	1,931	1,946
Subordinated notes	56	57	57	57
Other liabilities	15	15	17	14
Total liabilities	**2,091**	**2,037**	**2,008**	**2,019**
Capital	247	235	223	213
Total liabilities and capital	**2,338**	**2,272**	**2,231**	**2,232**

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

Addendum 5 (cont.)

Reported amounts

NIS millions

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash	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**

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

NIS millions

	2013			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	85	82	76	74
Net interest income	1	1	2	1
Other income	1	*-	*-	*-
Total income	**87**	**83**	**78**	**75**
Expenses (income)				
Provision for credit losses	1	(1)	1	*-
Operating expenses	22	24	24	24
Sales and marketing expenses	18	16	13	15
General and administrative expenses	8	7	6	6
Payments to banks	22	22	20	18
Total expenses	**71**	**68**	**64**	**63**
Profit before taxes	16	15	14	12
Provision for taxes on profit	4	3	4	3
Net profit	**12**	**12**	**10**	**9**
Basic and diluted net profit per common share (in NIS)	**86**	**85**	**84**	**66**

* Amount lower than NIS 0.5 million.

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

Addendum 6 (cont.)

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 doubtful debts	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.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2013 (hereinafter: the "**Report**").

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

3. Based on my knowledge, the annual financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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 over financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

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

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

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

Dov Kotler

Chief Executive Officer

Tel Aviv, February 27, 2014.

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the “**Company**”) for 2013 (hereinafter: the “**Report**”).

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

3. Based on my knowledge, the annual financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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 over financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

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

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

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

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2014.

Report of the Board of Directors and Management on Internal 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, 2013, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as at December 31, 2013, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2013 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 105. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2013.

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

Tel Aviv, February 27, 2014.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2013

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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 Control over Financial Reporting

We have audited the internal control over financial reporting of Poalim Express Ltd. (hereinafter: “the Company”) as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: “COSO”). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning 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, 2013, based on criteria established in the Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by the directives and guidelines of the Supervisor of Banks, the balance sheets of the Company as at December 31, 2013 and 2012, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows for each of the years in the three-year period ended on December 31, 2013. Our report dated February 27, 2014, expressed an unqualified opinion on the aforesaid financial statements.

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

Tel Aviv, February 27, 2014

Somekh Chaikin

ZIV HAFT

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, 2013 and 2012, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows of the Company, for each of the three years in the period ended on December 31, 2013. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2013, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2014, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (ISR)

Ziv Haft
Certified Public Accountants (ISR)

Tel Aviv, February 27, 2014

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2013	2012
Assets			
Cash		12	13
Debtors in respect of credit-card activity	2, 3	1,896	1,744
Allowance for credit losses	2A	(10)	(10)
Debtors in respect of credit-card activity, net		1,886	1,734
Computers and equipment	4	2	2
Other assets	5	438	400
Total assets		**2,338**	**2,149**
Liabilities			
Credit from banking corporations	6	3	4
Creditors in respect of credit-card activity	7	2,017	1,868
Subordinated notes	8	56	56
Other liabilities	9, 14	15	17
Total liabilities		**2,091**	**1,945**
Contingent liabilities and special agreements	14		
Equity	10	247	204
Total liabilities and capital		**2,338**	**2,149**

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

Tel Aviv, February 27, 2014

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2013	2012	2011
Income				
From credit-card transactions	17	317	292	256
Net interest income	18	5	7	7
Other income		1	1	*-
Total income		**323**	**300**	**263**
Expenses				
Provision for credit losses	2A	1	6	4
Operating expenses	19	94	91	82
Sales and marketing expenses	20	62	54	48
General and administrative expenses	21	27	25	22
Payments to banks	14F	82	73	63
Total expenses		**266**	**249**	**219**
Profit before taxes		**57**	**51**	**44**
Provision for taxes on profit	22	14	13	9
Net profit		**43**	**38**	**35**
Basic and diluted net profit per common share (in NIS)		**309**	**275**	**249**
Number of common shares used in calculation		139,326	139,326	139,326

* Amount lower than NIS 0.5 million.

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, 2012	*-	35	*-	35	169	204
Benefits received from controlling shareholder	-	-	*-	*-	-	*-
Annual net profit	-	-	-	-	43	43
Balance as at Dec. 31, 2013	***-**	**35**	***-**	**35**	**212**	**247**

	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, 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**

	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, 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**

* 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		
	2013	2012	2011
Cash flows from operating activity			
Annual net profit	43	38	35
Adjustments:			
Depreciation of computers and equipment	1	1	1
Provisions for credit losses	1	6	4
Deferred taxes, net	(*-)	(2)	(2)
Revaluation of subordinated notes	-	(2)	2
Benefit from a transaction with a controlling party	*-	*-	*-
Adjustments for rate differences	1	(1)	1
Changes in current assets			
Change in credit to cardholders and merchants, net	2	(5)	(3)
Change in other debtors in respect of credit-card activity, net	(155)	(147)	(115)
Change in other assets, net	(38)	(61)	(245)
Changes in current liabilities			
Change in short-term credit from banking corporations, net	(1)	3	(1)
Change in creditors in respect of credit-card activity, net	149	160	142
Change in other liabilities	(2)	(2)	3
Net cash from operating activity	1	(12)	(178)

* Amount lower than NIS 0.5 million.

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		
	2013	**2012**	**2011**
Cash flows from investing activity			
Acquisition of computers and equipment	(1)	(1)	(1)
Net cash from investing activity	(1)	(1)	(1)
Increase (decrease) in cash	*-	(13)	(179)
Balance of cash at beginning of year	13	25	205
Effect of changes in exchange rates on cash balances	(1)	1	(1)
Balance of cash at end of year	12	13	25
Interest and taxes paid and/or received			
Interest received	6	9	9
Interest paid	2	4	*-
Taxes paid on income	15	17	11
Taxes received on income	*-	1	*-

*   Amount lower than NIS 0.5 million.

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

Note 1 – Significant Accounting Policies

A. General

Poalim Express Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1995 and is wholly owned by Bank Hapoalim B.M. (hereinafter: the "**Parent Company**" / "**Bank Hapoalim**"). The holder of the permit to control 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. 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 14E below).

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

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

B. Definitions

In these financial statements:

- Generally accepted accounting principles (GAAP) for US banks – Accounting principles which American banks traded in the United States are required to implement. These rules are established by the banking supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), Codification, and in accordance with the guidelines and position statements of the banking supervision agencies in the United States.
- International Financial Reporting Standards (hereinafter: "IFRS") – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including IFRS and International Accounting Standards (IAS), and interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC), respectively.

1. The Company – Poalim Express Ltd.
2. The Parent Company – Bank Hapoalim B.M.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

3. Related parties – As defined in IAS 24, Related Party Disclosures, excluding interested parties.

4. Interested parties – As defined in the Securities Law, 1968, and as defined in Section 80B of the Public Reporting Directives.

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, as published by the Central Bureau of Statistics in Israel.

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.

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 based on GAAP for US banks as adopted in the Public Reporting Directives of the Supervisor of Banks. Matters related to the

Note 1 – Significant Accounting Policies (cont.)

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

core business of banking have been defined by the Supervisor of Banks as financial instruments; recognition of revenues, including customer loyalty programs; allowance for credit losses; contingent liabilities and provisions; presentation of financial statements; and segmental reporting.

♦ **On matters not related to the core business of banking** – Accounting treatment based on Israeli GAAP, and on certain IFRS and the related IFRIC interpretations. Pursuant to the directives of the Supervisor of Banks, international standards are implemented according to the following principles:

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

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;

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

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

1. Directive concerning the "statement of comprehensive income."
2. Directive concerning "offsetting of assets and liabilities."
3. Certain disclosures pursuant to the directives of the Supervisor of Banks concerning the update of disclosures of the credit quality of debts and credit loss allowances, for the adoption of ASU 2010-20, initial implementation of which was required beginning January 1, 2013.
4. Updates concerning the presentation of the note on assets and liabilities by linkage base and by term to maturity.

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

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

Exchange-rate differences arising from translation are recognized in profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

2. Basis for 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.

(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 are recognized on an accrual basis.

Note 1 – Significant Accounting Policies (cont.)

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

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

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

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Identification and Classification of Impaired Debts

The Company classifies all of its problematic debts and items of off-balance-sheet credit into the categories: under special supervision, substandard, or impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. Decisions regarding debt classification are made based on factors including the state of arrears of the debt and evaluation of the borrower's financial condition and repayment capability.

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

Note 1 – Significant Accounting Policies (cont.)

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

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.

Individual allowance for credit losses – The Company chooses to identify debts for individual examination when the total contractual balance of the debt (without deducting charge-offs that do not involve an accounting waiver and allowances for credit losses) is NIS 500 thousand or more. An individual allowance for credit losses is recognized for any debt examined on an individual basis and classified as impaired. In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired debt, and is examined individually. The individual allowance for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards by the debtor.

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually in large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is 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 between cardholders, merchants, and the international organization.

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

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

Note 1 – Significant Accounting Policies (cont.)

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

In accordance with the guidelines of the Supervisor of Banks, prior to the publication of updated and final guidelines concerning the collective allowance, the Company continues to implement the directives established in the temporary order.

At this stage, the Company cannot estimate the effect of the adoption of the directive, when it is implemented.

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

Troubled Debt Restructuring

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

In order to determine whether a debt arrangement executed by the Company constitutes a troubled debt restructuring, the Company performs a qualitative examination of the terms and circumstances of 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.

Note 1 – Significant Accounting Policies (cont.)

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

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

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

Charge-Offs

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

Revenue Recognition

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

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

The Company implements the directives in the circular of the Supervisor of Banks concerning an update of the disclosure of credit quality of debts and the allowance for credit losses, to adopt ASU 2010-20, which requires more extensive disclosure of debt balances, changes in the balance of the allowance for credit losses, any material acquisitions and sales of debts during the reporting period, and additional disclosures regarding credit quality.

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

In addition, the fair value of financial instruments is measured without taking the blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair value measurement by market participants in the absence of Level 1 data.

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

Upon capture of a credit-card transaction, the Company includes, in its balance sheet, a debt of the cardholder, if it is the issuing company, or a debt of another issuing company, against a liability to pay the merchant.

6. Offsetting Assets and Liabilities

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

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

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously.
- The Company and the counterparty owe one another determinable amounts.

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

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

Note 1 – Significant Accounting Policies (cont.)

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

7. Fixed Assets (Computers and Equipment)

Recognition and Measurement

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

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

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

Subsequent Costs

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

Depreciation

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

8. Intangible Assets

Software Costs

Software acquired by the Company is recognized as an asset and measured at cost, with the deduction of depreciation and accumulated losses from impairment. Costs related to software development or adaptation for in-house use are capitalized if and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Company has the intention and sufficiency in resources to complete the development and use the software. Costs recognized as an intangible asset in respect of development activities include direct costs of materials and services and direct labor wages for workers. Other costs in respect of development activities and research costs are allocated to profit and loss when they arise. In subsequent periods, capitalized development costs are measured at cost, with the deduction of amortization and accrued losses from impairment.

Subsequent Costs

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

Amortization

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

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

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 for impairment at least once a year until they become available for use.

The estimated useful life for the current period and for comparative periods with respect to capitalized development costs is 4 years. Estimates related to the amortization method, useful life, and residual value are reexamined at least at the end of each reporting year, and adjusted when necessary.

9. Impairment of Non-Financial Assets

Timing of Examination of Impairment

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

Measurement of Recoverable Amount

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

Impairment of In-House Software Development Costs

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

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

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

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

10. 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 2013. The calculation of the provision for the loyalty program assumes that the price of a point is based on the actual average cost per point as at the end of the year.

11. Employee Benefits

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

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

Note 1 – Significant Accounting Policies (cont.)

E. 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.

12. Share-Based Payment Transactions

The fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or performance conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are performance conditions constituting market conditions, the 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 at the date of the grant of a share-based payment for services is allocated as sales and marketing expenses, in parallel to the increase in equity, over the period of the services agreement.

Note 1 – Significant Accounting Policies (cont.)

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

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

Transactions in which the Parent Company grants employees of the Company interests in its equity instruments are accounted for by the Company as a share-based payment settled in equity instruments. An expense is recognized in the financial statements of the Company, in the statement of 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.

13. Contingent Liabilities

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

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

2. Reasonably possible risk – the probability of realization of the exposure to risk is greater than 20% and less than or equal to 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

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

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

14. Expenses for Taxes on Income

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

Note 1 – Significant Accounting Policies (cont.)

E. 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 enacted or substantively enacted at the reporting date, including changes in tax payments referring to previous years.

Offsetting Current Tax Assets and Liabilities

Current tax assets and current tax liabilities are offset in the balance sheet when they arise from the same reported entity, an enforceable legal right to offset exists, and there is an intention to settle on a net basis and realize the taxes simultaneously.

Deferred Taxes

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

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

Offsetting Deferred Tax Assets and Liabilities

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

Note 1 – Significant Accounting Policies (cont.)

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

15. Capitalization of Borrowing Costs

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

16. 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.

17. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, investing activity, and financing activity. Cash flows arising from main activities of the Company are classified under operating activity. The item "cash and cash equivalents" includes cash on hand for an original period of up to three months.

18. Reporting on Operating Segments

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

Note 1 – Significant Accounting Policies (cont.)

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

19. 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.

20. Transactions with Controlling Parties

The Company implements US GAAP for the accounting treatment of transactions between a banking corporation or credit-card company and its controlling party or a company controlled by the banking corporation or credit-card company. In situations where these rules do not address the accounting treatment, the Company applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party.

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Company allocates the difference between the fair value and the consideration from the transaction to equity.

Loans, Including Deposits

At the first recognition date, the loan granted to the controlling party or the deposit received from the controlling party is presented in the financial statements of the Company at its fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof at the first recognition date is allocated to equity.

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Company at their depreciated cost, with implementation of the effective interest method, excluding cases in which, pursuant to GAAP, they are presented at fair value.

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

1. On January 30, 2014, the Supervision of Banks issued a draft concerning the adoption of US GAAP on employee benefits. The draft updates the requirements for recognition, measurement, and disclosure of employee benefits in the Public Reporting Directives, in accordance with GAAP for US banks. The draft includes certain updates of the Public Reporting Directives, but does not include all of the necessary updates to the directives as a result of the adoption of these rules. These matters, including further clarification if necessary, will be handled separately.

The draft states that the amendments to the Public Reporting Directives will take effect on January 1, 2015. Upon initial implementation, the bank or credit-card company must retroactively amend its comparative figures for periods beginning January 1, 2013, or later, to comply with the requirements of the aforesaid rules. The draft states, among other matters:

- ♦ The discount rate for calculation of the liability for employee benefits will be based on market yields of government bonds in Israel. As a result, the temporary order in the current directives that sets the capitalization rate for calculating provisions to cover employee benefits will be canceled.
- ♦ Banking corporations will apply GAAP for US banks with regard to share-based payments, as specified in ASC 718 – Compensation – Stock Compensation.

The effect of the implementation of international standards with regard to employee benefits (IAS 19) on the financial results of the Company is immaterial.

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

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

The directives pertaining to the adoption of US GAAP concerning interest income measurement will be implemented from January 1, 2014, forward. These directives will have no material effect on the financial statements.

3. Collective Allowance for Credit Losses

A draft circular updating the Public Reporting Directives concerning the "collective allowance for credit losses" was issued on April 10, 2013. The draft extends the period of application of the temporary order concerning the calculation of the collective allowance for credit losses, provides clarifications and guidelines for the calculation of the rate of past losses, and provides detailed instructions regarding the inclusion of adjustments for environmental factors in the allowance coefficient. The draft also mandates significant expansion of the requirements for documentation supporting the collective allowance coefficient and the general fairness of the allowance, as well as significant expansion of reporting requirements.

The requirements in the directive are expected to take effect in accordance with the schedule and transitional directives to be established in the final directive. The expected effect of the implementation of the guidelines concerning the calculation of rates of past losses will be accounted for as a change in an estimate and allocated to profit and loss.

The implementation of the guidelines on all matters pertaining to the requirements on quantification of environmental factors, the general fairness of the allowance, and the documentation requirements may necessitate extensive preparations by the Company and changes of existing methodologies for the quantification of the collective allowance. Therefore, at this stage the Company cannot quantify the expected effects of such implementation.

4. Update of Disclosure of Credit Quality, Debts, and Allowance for Credit Losses at Credit Card Companies

A circular entitled "Update of Disclosure of Credit Quality, Debts, and Allowance for Credit Losses at Credit Card Companies" was issued on February 10, 2014. The circular will apply beginning in the first quarter of 2014, with the exception of the disclosure of credit ratings, which will apply beginning with the annual report for 2014.

Note 2 – 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 2013		2013	2012
	For daily balance	For transactions in the last month		
	%	%		
Debtors in respect of credit cards(1) (2)	-	-	1,841	1,692
Credit to merchants(3)	3.37	3.60	30	32
Total debtors and credit to credit-card holders and merchants(4) (5)			1,871	1,724
Less: Allowance for credit losses			(10)	(10)
Total debtors and credit to credit-card holders and merchants, net			1,861	1,714
International credit-card organization			22	17
Income receivable			2	2
Others			1	1
Total debtors in respect of credit-card activity, net			**1,886**	**1,734**
(1) Of which, under the responsibility of banks			1,464	1,357

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

(3) Includes advance payments to merchants in the amount of NIS 28 million (Dec. 31, 2012: NIS 30 million).

(4) Of which, NIS 34 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, 2012: NIS 27 million). For further details, see Note 2A.A.2 below.

(5) Of which, NIS 1,837 million in debts not examined individually, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2012: NIS 1,697 million). For details, see Note 2A.A.2 below.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

Reported amounts

In NIS millions

A. Off-Balance Sheet Debts and Credit Instruments[(3)]

1. Change in allowance for credit losses

	For the year ended December 31, 2013						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[(2)]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2012	12	*-	2	*-	14	*-	14
Provision (income) for credit losses	*-	1	(*-)	*-	1	*-	1
Charge-offs	(4)	-	(*-)	-	(4)	-	(4)
Recovery of debts charged off in previous years	3	-	-[(1)]	-	3	-	3
Net charge-offs	(1)	-	(*-)	-	(1)	-	(1)
Allowance for credit losses as at Dec. 31, 2013**	**11**	**1**	**2**	***-**	**14**	***-**	**14**
** Of which: in respect of off-balance-sheet credit instruments	3	*-	1	-	4	-	4

* Amount lower than NIS 0.5 million.

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

(2) Includes companies and the international credit-card organization, income receivable, and other debts.

(3) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 above).

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2012						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2011	8	*-	2	*-	10	*-	10
Provision (income) for credit losses	5	(*-)	1	(*-)	6	(*-)	6
Charge-offs	(4)[4]	-	(1)	-	(5)	-	(5)
Recovery of debts charged off in previous years	3[4]	-	-[1]	-	3	-	3
Net charge-offs	(1)	-	(1)	-	(2)	-	(2)
Allowance for credit losses as at Dec. 31, 2012**	**12**	***-**	**2**	***-**	**14**	***-**	**14**
** Of which: in respect of off-balance-sheet credit instruments	3	*-	1	-	4	-	4

* Amount lower than NIS 0.5 million.

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

(2) Includes companies and the international credit-card organization, income receivable, and other debts.

(3) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 above).

(4) Reclassified.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2011						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2010	7	-	1	-	8	-	8
Net charge-offs recognized as at Jan. 1, 2011	(9)	-	(1)	-	(10)	-	(10)
Other changes in the allowance as at Jan. 1, 2011	12	*-	1	*-	13	-	13
Provision (income) for credit losses	3	*-	1	*-	4	*-	4
Charge-offs	(8)[4]	-	*-	-	(8)	-	(8)
Recovery of debts charged off in previous years	3[4]	-	-[1]	-	3	-	3
Net charge-offs	(5)	-	*-	-	(5)	-	(5)
Allowance for credit losses as at Dec. 31, 2011**	**8**	***-**	**2**	***-**	**10**	***-**	**10**
** Of which: in respect of off-balance-sheet credit instruments	2	*-	1	-	3	-	3

* Amount lower than NIS 0.5 million.

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

(2) Includes companies and the international credit-card organization, income receivable, and other debts.

(3) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 above).

(4) Reclassified.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Off-Balance Sheet Debts and Credit Instruments[1] (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts

	December 31, 2013						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	11	-	23	-	34	-	34
Examined on a collective basis	366	1,464	7	449	2,286	12	2,298
Total debts	377	1,464	30	449	2,320	12	2,332
Allowance for credit losses in respect of debts							
Examined on an individual basis	2	-	1	-	3	-	3
Examined on a collective basis	6	1	*-	*-	7	*-	7
Total allowance for credit losses	**8**	**1**	**1**	***-**	**10**	***-**	**10**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 below).

(2) Includes the international credit-card organization, income receivable, and other debts.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Off-Balance Sheet Debts and Credit Instruments(1) (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts (cont.)

	December 31, 2012(3)						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other(2)	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	2	-	25	-	27	-	27
Examined on a collective basis	333	1,357	7	418	2,115	13	2,128
Total debts	335	1,357	32	418	2,142	13	2,155
Allowance for credit losses in respect of debts							
Examined on an individual basis	2	-	1	-	3	-	3
Examined on a collective basis	7	*-	*-	*-	7	*-	7
Total allowance for credit losses	**9**	***-**	**1**	***-**	**10**	***-**	**10**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 below).

(2) Includes the international credit-card organization, income receivable, and other debts.

(3) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.D.3 and 1.E.3 above.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[(1)]

1. Credit quality and arrears

	December 31, 2013					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	1,464	-	-	1,464	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	373	1	3	377	-	1
Commercial						
Credit to merchants	30	*-	*-	30	-	*-
Other[(2)]	449	-	-	449	-	-
Banks	12	-	-	12	-	-
Total	**2,328**	**1**	**3**	**2,332**	**-**	**1**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 below).

(2) Includes the international credit-card organization, income receivable, and other debts.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[(1)] (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2012[(3)]					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	1,357	-	-	1,357	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	330	2	3	335	-	2
Commercial						
Credit to merchants	32	*-	*-	32	-	*-
Other[(2)]	418	-	-	418	-	-
Banks	13	-	-	13	-	-
Total	**2,150**	**2**	**3**	**2,155**	**-**	**2**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 2 below).

(2) Includes the international credit-card organization, income receivable, and other debts.

(3) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.D.3 and 1.E.3 above.

Credit Quality

Arrears are monitored routinely, and constitute one of the key indicators of credit quality. The state of the arrears affects the classification of debts evaluated on a collective basis (the classification is more severe with more extensive arrears). After 150 days of arrears, the Company charges off the debt.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[3] (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2013				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Balance of individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	2	2	1	3	3
Commercial					
Credit to merchants	*-	*-	*-	*-	*-
Other[4]	-	-	-	-	-
Banks	-	-	-	-	-
Total**	**2**	**2**	**1**	**3**	**3**
** Of which: Debts in troubled debt restructuring	2	2	-	2	2

* Amount lower than NIS 0.5 million.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 4 below).

(4) Includes the international credit-card organization, income receivable, and other debts.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts(3) (cont.)

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2012(5)				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Balance of individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	2	2	1	3	3
Commercial					
Credit to merchants	*-	*-	*-	*-	*-
Other(4)	-	-	-	-	-
Banks	-	-	-	-	-
Total**	**2**	**2**	**1**	**3**	**3**
** Of which: Debts in troubled debt restructuring	2	2	-	2	2

* Amount lower than NIS 0.5 million.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash, and other (see footnote 4 below).

(4) Includes the international credit-card organization, income receivable, and other debts.

(5) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.D.3 and 1.E.3 above.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[2] (cont.)

2. Additional information regarding impaired debts (cont.)

b. Average balance of impaired debts

	For the year ended December 31	
	2013	2012
Average recorded debt balance of impaired debts examined individually during the reported period	2	2

c. Troubled debt restructuring[1]

	For the year ended December 31	
	2013	2012[3]
Private		
Debtors and credit in respect of credit cards under the responsibility of the Company	2	2
Commercial		
Credit to merchants	*-	*-
Total	**2**	**2**

* Amount lower than NIS 0.5 million.

(1) Troubled debts in restructuring do not accrue interest income.

(2) Debts – debtors in respect of credit-card activity, cash, and other.

(3) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.D.3 and 1.E.3 above.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

B. Debts[(2)] (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2013[(1)]				
	Debt restructured during the reported period[(3)]			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Private					
Debtors and credit in respect of credit cards under the responsibility of the Company	590	4	4	86	1
Commercial					
Credit to merchants	4	*-	*-	-	-
Total	**594**	**4**	**4**	**86**	**1**

* Amount lower than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Pursuant to the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and the allowance for credit losses, among other matters, new disclosures are required with regard to troubled debt restructuring; the transitional directives state that such disclosures should be included beginning with the financial statements as at March 31, 2013. The new disclosure requirements are to be implemented prospectively. Also see Note 1.E.3, above.

(2) Debts – debtors in respect of credit-card activity, cash, and other.

(3) The recorded debt balance represents the balance at the date of restructuring of the debt and is not the recorded balance at the date of the report.

Note 3 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

	December 31, 2013			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	292,004	326	314	91
Borrower balances over 5 and up to 10	91,804	415	370	257
Borrower balances over 10 and up to 15	45,326	278	226	292
Borrower balances over 15 and up to 20	30,069	190	129	342
Borrower balances over 20 and up to 30	34,106	232	139	590
Borrower balances over 30 and up to 40	11,089	115	68	277
Borrower balances over 40 and up to 80	6,449	135	93	186
Borrower balances over 80 and up to 150	894	48	36	43
Borrower balances over 150 and up to 300	232	32	25	14
Borrower balances over 300 and up to 600	66	15	12	12
Borrower balances over 600 and up to 1,200	25	17	14	4
Borrower balances over 1,200 and up to 2,000	13	16	8	4
Borrower balances over 2,000 and up to 4,000	8	19	14	5
Borrower balances over 4,000 and up to 8,000	3	17	7	-
Borrower balances over 8,000 and up to 20,000	2	17	9	6
Borrower balances over 20,000 and up to 40,000	1	22	-	-
Total	**512,091**	**1,894**	**1,464**	**2,123**
Income receivable	-	2	-	-
Total	**512,091**	**1,896**	**1,464**	**2,123**

(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 3 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

	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 4,000 and up to 8,000	3	6	3	4
Borrower balances over 8,000 and up to 20,000	4	23	8	1
Borrower balances over 20,000 and up to 40,000	2	17	-	10
Total	-	-	-	-
Income receivable	**445,421**	**1,742**	**1,357**	**2,242**
	-	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 – Computers and Equipment

Reported amounts

In NIS millions

	Computers and equipment	Furniture and office equipment	Software costs[(1)]	Total
Cost:				
As at December 31, 2012	9	*-	1	10
Additions	1	-	*-	1
As at December 31, 2013	10	*-	1	11
Accrued depreciation:				
As at December 31, 2012	7	*-	1	8
Additions	1	*-	*-	1
As at December 31, 2013	8	*-	1	9
Depreciated balance as at December 31, 2013	2	*-	*-	2
Depreciated balance as at December 31, 2012	2	*-	*-	2
Weighted average depreciation rate in % in 2013	21.2	7.6	25.0	
Weighted average depreciation rate in % in 2012	21.8	7.6	25.0	

(1) Includes capitalized software costs, in an amount lower than NIS 0.5 million.

* Amount lower than NIS 0.5 million.

Note 5 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2013	**2012**
Deferred taxes receivable, net (see Note 22)	8	8
Surplus of advance income-tax payments over current provisions	1	-
Other debtors and debit balances:		
Prepaid expenses	4	1
Related companies*	424	390
Others	1	1
Total other debtors and debit balances	429	392
Total other assets	**438**	**400**

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

Note 6 – Credit from Banking Corporations

Reported amounts

In NIS millions

	December 31, 2013		December 31	
	Average annual interest rate		**2013**	**2012**
	For daily balance	**For transactions in the last month**		
	%	**%**		
Credit in current drawing accounts	**1.26**	**1.26**	**3**	**4**

Note 7 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2013	**2012**
Merchants[1]	1,924	1,790
Prepaid income	2	1
Provision for loyalty program	58	51
Expenses payable	9	8
Others	24	18
Total creditors in respect of credit-card activity	**2,017**	**1,868**

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 63 million as at December 31, 2013 (Dec. 31, 2012: NIS 61 million).

Note 8 – Subordinated Notes

Reported amounts

In NIS millions

A. Item composition

	Average duration[1]	Internal rate of return[2]	December 31	
	%	%	2013	2012
		2013		
In Israeli currency				
Unlinked	5.69	2.20	56	56

(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 9 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2013	**2012**
Surplus current income-tax reserves over advances paid	-	*-
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	2	2
Suppliers of services and equipment	-	5
Expenses payable	4	3
Institutions	4	3
Allowance for credit losses in respect of off-balance-sheet liabilities	4	4
Others	1	*-
Total other creditors and credit balances	15	17
Total other liabilities	**15**	**17**

* Amount lower than NIS 0.5 million.

Note 10A – Equity

	December 31, 2013		December 31, 2012	
	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 10B – Capital Adequacy According to the Directives of the Supervisor of Banks[(1)]

Reported amounts

In NIS millions

	December 31, 2013	December 31, 2012
1. Capital for the calculation of the capital ratio		
	In NIS millions	
Core capital and Tier 1 capital	247	204
Tier 2 capital*	56	56
Total overall capital	**303**	**260**

* 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, 2013		December 31, 2012	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1,435	129	1,393	125
Market risks – foreign currency exchange rate risk	5	1	4	*-
Operational risk	348	31	304	28
Total weighted balances of risk-adjusted assets	**1,788**	**161**	**1,701**	**153**

3. Ratio of capital to risk-adjusted assets

	December 31, 2013	December 31, 2012
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	13.8	12.0
Ratio of total capital to risk-adjusted assets	16.9	15.3
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 10B – 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, 2013	December 31, 2012
Tier 1 capital		
Equity	247	204
Total Tier 1 capital	**247**	**204**
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."

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

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel III directives. The amendments to the aforesaid directives will be in effect beginning January 1, 2014. Implementation will be gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive No. 299, Capital Measurement and Adequacy - Supervisory Capital - Transitional Directives.

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

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

Note 10B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

NIS millions

	According to directives of the Supervisor of Banks applicable December 31, 2013 – Basel II	Expected effect of implementation of Basel III	According to Basel III directives
		In NIS millions	
A. Regulatory capital after deductions and supervisory adjustments			
Core capital	247	(247)	-
Common equity Tier 1 capital	-	247	247
Tier 2 capital	56	1	57
Total capital	**303**	**1**	**304**
B. Weighted balances of risk-adjusted assets			
Credit risk	1,435	19	1,454
Market risk	5	-	5
Operational risk	348	-	348
Total weighted balances of risk-adjusted assets	**1,788**	**19**	**1,807**
C. Ratio of capital to risk-adjusted assets			
Ratio of core capital to risk-adjusted assets	13.8%	(13.8%)	-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-	13.7%	13.7%
Ratio of total capital to risk-adjusted assets	16.9%	(0.1%)	16.8%
Minimum capital ratio required by the directives of the Supervisor of Banks			
Ratio of core capital to risk-adjusted assets	7.5%		-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-		*7.5%
Ratio of total capital to risk-adjusted assets	9.0%		*9.0%

* See minimum capital requirements in the section “Capital Adequacy Target,” below.

Note 10B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

Capital Adequacy Target

The Company has a policy, which has been approved by the Board of Directors and by Management, of maintaining a capital-adequacy level according to a capital target that is higher than the minimum ratio required by the Supervisor of Banks. In the opinion of the 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, 2013, the Supervisor of Banks issued a guidance letter, "The Basel III Framework – Minimum Core Capital Ratios." The letter requires banks and credit-card companies to maintain a common equity Tier 1 capital (core capital) ratio of 9% (instead of the current 7.5%), and a total capital ratio of 12.5%, by January 1, 2015. Further, banks whose total balance-sheet assets on a consolidated basis constitute at least 20% of the total assets of the banking system will be required to raise their minimum common equity Tier 1 capital (core capital) ratio by one percentage point, and maintain a ratio of 10%, and a total capital ratio of 13.5%, by January 1, 2017.

Note that the definitions of core capital and total capital and the supervisory adjustments (deductions from capital) established by the Supervisor of Banks as part of the adoption of the Basel III directives are significantly different from the definitions included in the Basel II directives.

Dividend distribution will be possible on the condition that it does not impair the Company's ability to comply with the new capital requirements. The Company is studying this directive and its expected implications in connection with the formulation of a revised capital plan, with the aim of ensuring the implementation of the directive and compliance with the new common equity Tier 1 capital (core capital) ratio requirements.

Note 11 – Employee Benefits

A. Personal Contracts – Former Chairperson of the Board of Directors and CEO of the Company

1. Former Chairperson of the Board of Directors Ms. Irit Izakson – Employment Agreement

The former Chairperson of the Board of Directors, Ms. Irit Izakson, was appointed to serve as Chairperson of the Board of Directors of the Company from January 1, 2009 to December 31, 2011. Ms. Izakson also served as Chairperson of the Board of Directors of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. beginning October 1, 2008, and as Chairperson of the Board of Directors of Aminit Ltd. beginning January 1, 2009 (until it was merged into Isracard Ltd. on October 1, 2013).

On April 30, 2012, the Board of Directors of Isracard approved an employment agreement with Ms. Izakson, former Chairperson of the Board of Directors, for a period of three years beginning January 1, 2012 and ending December 31, 2014; the continuation of the contractual engagement with the Chairperson in the third year of the agreement (2014) was subject to approval by the Supervisor of Banks (hereinafter: the "**Employment Agreement"**). The cost of the Employment Agreement was reflected for the Company through its operational agreement with Isracard.

The Employment Agreement was also approved by the general assembly of shareholders of Isracard. Pursuant to the Employment Agreement, notwithstanding the foregoing, the parties were permitted to terminate the contractual engagement under the employment agreement at any time, including earlier than the period of the agreement, with 90 days' advance notice. In the event that the approval of the Supervisor of Banks for Ms. Izakson's continued service as Chairperson of the Board of Directors of the Company was not obtained, it would be seen as termination of the Company's contractual engagement with Ms. Izakson. If her employment had been terminated at the initiative of the Company, or at her own initiative under circumstances that entitled her to severance pay according to law, Ms. Izakson would be entitled to a full supplement of the severance pay amount to 250% of her last monthly salary.

A bonus plan applicable to the former Chairperson of the Board of Directors was established within the Employment Agreement, which is similar in its principles to the bonus plan for senior executives at the Company. For details regarding the bonus plan applicable to the former Chairperson of the Board of Directors and the CEO of the Company, see below.

Pursuant to the Employment Agreement, the former Chairperson of the Board of Directors of the Company was granted equity compensation in the form of 161,241 ordinary restricted stock units (the "**RSU**"), exercisable into shares of Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**"), under terms identical to those established in the remuneration plan for senior executives at Bank Hapoalim (hereinafter: the "**Bank Remuneration Plan**"). Upon fulfillment of all of the conditions for the exercise of the RSU in accordance with the Bank Remuneration Plan, the RSU shall be exercised automatically into shares of Bank Hapoalim, which will be purchased by Bank Hapoalim on the stock market for that purpose. The RSU shall vest such that one-third of the units vest after 12, 24, and 36 months, respectively, from the inception date of the Employment Agreement, and shall be restricted for 12 additional months after the vesting date. In addition, various limits have been set on the exercise of the RSU, in connection with the results of operations and financial condition of Bank Hapoalim.

Note 11 – Employee Benefits (cont.)

A. Personal Contracts – Former Chairperson of the Board of Directors and CEO of the Company (cont.)

The former Chairperson of the Board of Directors was also granted equity compensation in the form of 51,000 contingent restricted stock units of Bank Hapoalim (hereinafter: the "**Contingent RSU**"). Shortly after the publication of the annual financial statements of Bank Hapoalim for a given year, a quantity of Contingent RSU, of the installment of Contingent RSU, shall vest. This quantity shall be calculated in a proportional and linear manner, based on the attainment of an ROE difference (i.e. operating profits above a certain threshold established in the Bank Remuneration Plan) of 1% to 3%. With regard to the Contingent RSU, various limits have been set on the exercise of the RSU, in connection with the results of operations and financial condition of Bank Hapoalim.

The ordinary RSU and the Contingent RSU were granted in accordance with the directives of the capital gains track in Section 102 of the Income Tax Ordinance [New Version], 1961, and were deposited with a trustee appointed for that purpose in the Bank Remuneration Plan.

Upon termination of the employment of the former Chairperson of the Board of Directors, the RSU (including the Contingent RSU) that have not yet vested shall expire, with the exception of a relative share of the next installment of RSU that would vest on the next vesting date following the termination of employment if she had continued to work at the Company. The RSU vested as described above shall be exercised automatically, as described above.

In the event that Bank Hapoalim distributes a dividend, prior to the exercise date of any of the RSU, the former Chairperson of the Board of Directors shall be entitled to a cash payment in an amount equal to the amount of the dividend that would have been paid, if at the date of the dividend distribution she had held a number of ordinary shares of Bank Hapoalim equal to the number of the said RSU, with deduction of the applicable tax. The payment of the dividend equivalent grant and the entitlement thereto shall occur only after the RSU vest, and subject to such vesting.

In August 2012, Isracard paid Bank Hapoalim the value of the RSU at the date of the grant.

The employment of Ms. Izakson at the Company was terminated on December 31, 2013, due to the fact that the Supervisor of Banks did not grant approval for her continued employment as active Chairperson of Isracard concurrently with her service as a member of the board of directors of Bank Hapoalim.

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 former 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).

Note 11 – Employee Benefits (cont.)

A. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company (cont.)

The former Chairperson of the Board of Directors no longer holds options of Isracard under her previous employment agreement.

The Employment Agreement, including the bonus plan and the grants of the RSU, as well as the sale of shares of Isracard to Bank Hapoalim, as described above, were approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee of the Board of Directors, and the general meeting of Bank Hapoalim, as the former Chairperson of the Board of Directors was also a member of the Board of Directors of Bank Hapoalim.

2. Chief Executive Officer Mr. Dov Kotler – Employment Agreement

The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009 and employed under a personal contract until January 31, 2012. Mr. Kotler also serves as CEO of Isracard Ltd. and Europay (Eurocard) Israel Ltd. Mr. Kotler served as CEO of Aminit Ltd. until its merger into Isracard on October 1, 2013. 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 "**Employment Agreement**").

The cost of the Employment Agreement is reflected for the Company through 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 Employment Agreement, which is similar in its principles to the bonus plan for senior executives at the Company. For details regarding the bonus plan applicable to the former Chairperson of the Board of Directors and the CEO of the Company, see below.

Pursuant to the Employment Agreement, the CEO of the Company was granted equity compensation in the form of 189,695 ordinary RSU, exercisable into shares of Bank Hapoalim, at terms identical to those established for senior executives of Bank Hapoalim in the Bank Remuneration Plan, as detailed above with regard to the Chairperson of the Board of Directors of the Company. The RSU will vest over the three years of the agreement (one-third after 12, 24, and 36 months, respectively, from the inception date of the Employment Agreement). In addition to the aforesaid RSU, the CEO of the Company was granted equity compensation in the form of 60,000 Contingent RSU, in accordance with

Note 11 – Employee Benefits (cont.)

A. Personal Contracts – Former Chairperson of the Board of Directors and CEO of the Company (cont.)

the terms of the Bank Remuneration Plan, and as detailed above with regard to the former Chairperson of the Board of Directors of the Company. The other terms of the ordinary RSU and the Contingent RSU shall be in accordance with the directives of the Bank Remuneration Plan, as described above with regard to the former Chairperson of the Board of Directors of the Company. In August 2013, the Board of Directors of Bank Hapoalim resolved to change the terms of the contingent RSU that had been granted to the CEO of the Company: the quantity of RSU to vest each year, out of the relevant parcel of contingent RSU, will be calculated in a proportional and linear manner, based on the attainment of an ROE difference between 0.5% (0.75% for 2013) and 2%; and the shares from the exercise of the contingent RSU will be restricted for a period of four (4) years after the end of the year in respect of which they are granted.

In July 2012, 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 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 Former Chairperson of the Board of Directors and the Chief Executive Officer of the Company

A bonus plan was established within the employment agreements of the former Chairperson of the Board of Directors and the CEO of the Company, as noted above (hereinafter, in this section: the "**Plan**"). The Plan stated that the threshold profit for compensation with regard to the former Chairperson of the Board of Directors and the CEO of the Company each year would be identical to the threshold profit established in the remuneration plan for senior executives of Isracard in that year; in certain cases, the threshold profit would also be subject to approval by the Human Resources,

Note 11 – Employee Benefits (cont.)

B. Bonuses (cont.)

Salaries, and Remuneration Committee of Bank Hapoalim (with regard to the former Chairperson of the Board of Directors, also approval by additional organs of Bank Hapoalim, as required by law); and in any event, the threshold profit for the Isracard Group, which includes the Company, with respect to the former Chairperson of the Board of Directors and the CEO of the Company, in any year, would not be lower than NIS 174 million.

Pursuant to the Plan, a positive or negative personal budget was established each year for each of the former Chairperson of the Board of Directors and the CEO, based on the difference between the aggregate net accounting profit/loss of all of the companies in the Isracard Group in the given year (as it appears in the annual financial statements of the group of companies), and the threshold profit for compensation established as noted above with regard to the former Chairperson of the Board of Directors and the CEO (hereinafter: the "**Actual ROE Difference**"). In a year in which the Actual ROE Difference is positive, the budget shall be calculated according to progressively rising increments of the Actual ROE Difference, from an Actual ROE Difference of 2% to a ceiling of 30%; in a year in which the Actual ROE Difference is negative, the budget shall be calculated from a negative ROE difference of 2% to a negative ceiling of 30%. In a year in which the positive Actual ROE Difference is between 0% and 2%, the Board of Directors, at its sole discretion (with regard to the former Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law), may approve an annual bonus in a limited positive amount for the former Chairperson of the Board of Directors or the CEO of the Company. In addition, the positive or negative bonus budget to be established as described above shall be adjusted to the Actual ROE Difference of Bank Hapoalim in the relevant year; such adjustment may increase or decrease the positive or negative bonus budget by up to 20%.

In the event that the bonus budget in a particular year is negative due to special external circumstances that affect the entire market in which the Company operates in that year, the Board of Directors of Isracard (with regard to the former Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law) may reduce or cancel the negative bonus budget of the former Chairperson of the Board of Directors or the CEO in respect of that year.

Each year, the (positive or negative) bonus budget of each of the Chairperson of the Board of Directors and the CEO in respect of the previous year was distributed proportionally to the personal grade of each executive. Part of the personal grade shall be fixed, while part shall be based on the achievement of performance objectives set in advance.

The positive annual bonus of each of the former Chairperson of the Board of Directors and the CEO shall not exceed an amount equal to eighteen (18) of each of their monthly salaries. The negative annual bonus of each of the former Chairperson of the Board of Directors and the CEO shall not exceed an amount equal to ten (10) of each of their monthly salaries, and in any case, the negative balance in each of their bonus accounts shall not exceed an amount equal to three (3) monthly salaries.

Note 12 – Employee Benefits (cont.)

B. Bonuses (cont.)

Each year, a payment shall be made to each of the former Chairperson of the Board of Directors and the CEO in an amount equal to 50% of the balance in the bonus account after the annual deposit in respect of the preceding year (assuming that the bonus account balance is positive) (hereinafter: the "**Annual Payment**"), unless, in a certain year, the Company has a net loss for the year and/or a deviation from the required capital adequacy ratio. In such a case, the next Annual Payment shall be performed only after the publication of financial statements showing an aggregate net operating profit, and/or financial statements showing that the deviation from the capital adequacy ratio has ceased, as relevant.

The directives in the Plan with regard to the termination of employment of the former Chairperson of the Board of Directors or the CEO, as well as the directives in the Plan with regard to the bonus in respect of profits from extraordinary transactions, are similar to the corresponding directives in the remuneration plan for the senior executives of the Company.

C. Details of Liabilities in Respect of Employee Benefits

	December 31	
	2013	2012
	In NIS millions	
Early retirement	1	1
Long-service bonus	*-	*-
Provision for bonus in respect of unutilized sick days	*-	*-
Other benefits upon termination and post-employment	*-	*-
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 11 – 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 2012.

E. Options for Employees and Phantom Units

1. 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 had a vesting period of four years from the beginning of the year in which the options were allocated, and was exercisable for a period of one year after the end of the vesting period. The number of options distributed to each employee was determined according to the employee's seniority, job description, and rank.

2. On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, would receive options to purchase shares of the Bank at a price of NIS 1 per option. These options were allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program 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.

3. In March 2013, the Board of Directors of the Bank approved a program for the allocation of phantom units in 2013-2017, pursuant to which permanent employees of the Bank, including employees of the Bank on loan to the Company, will receive phantom units exercised into cash. These phantom units will be allocated at no cost, in five portions, in each of the years 2013-2017. The terms of the program are similar to those of the options granted to permanent employees of the Bank in previous years. The phantom units will be exercised automatically one year after a four-year vesting period.

F. Agreement with Employee Union

On December 25, 2013, Isracard signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, function descriptions were agreed upon.

Note 12 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2013					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	4	-	8	-	-	12
Debtors in respect of credit-card activity, net	1,823	9	50	4	-	1,886
Computers and equipment	-	-	-	-	2	2
Other assets	434	-	-	-	4	438
Total assets	**2,261**	**9**	**58**	**4**	**6**	**2,338**
Liabilities						
Credit from banking corporations	*-	-	-	3	-	3
Creditors in respect of credit-card activity	1,952	9	54	-	2	2,017
Subordinated notes	56	-	-	-	-	56
Other liabilities	15	-	*-	-	-	15
Total liabilities	**2,023**	**9**	**54**	**3**	**2**	**2,091**
Difference	238	(*-)	4	1	4	247

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

Note 12 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

In NIS millions

	December 31, 2012					
	Israeli currency		Foreign currency(1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	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 and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2013[5]					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Israeli currency (including linked to foreign currency)						
Assets	1,483	369	348	54	10	-
Liabilities	1,077	395	366	70	27	15
Difference	406	(26)	(18)	(16)	(17)	(15)
Foreign currency[3]						
Assets	68	(8)	-	-	-	-
Liabilities	52	1	*-	-	-	-
Difference	16	(9)	*-	-	-	-
Of which: Difference in USD	15	(9)	*-	-	-	-
Total						
Assets**	1,551	361	348	54	10	-
Liabilities	1,129	396	366	70	27	15
Difference	422	(35)	(18)	(16)	(17)	(15)
** Of which: Debtors in respect of credit-card activity	1,115	360	348	54	10	-

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each cash flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 12, "Assets and Liabilities by Linkage Base."

(3) Excluding Israeli currency linked to foreign currency.

(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.

(5) The format of the disclosure in the note on assets and liabilities by linkage base and by term to maturity has been updated, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," dated September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. For further information, see Note 1.D.4 above. The Company implemented this directive retroactively; comparative figures were classified accordingly.

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return[5]
-	-	-	-	2,264	15	2,278	-
1	57	-	-	2,008	11	2,036	0.93%
(1)	(57)	-	-	256	4	242	
-	-	-	-	60	-	60	-
-	-	-	-	53	2	55	-
-	-	-	-	7	(2)	5	-
				6	(2)	4	
-	-	-	-	2,324	15	2,338	-
1	(57)	-	-	2,061	13	2,091	-
(1)	(57)	-	-	263	2	247	-
-	-	-	-	1,887	-	1,886	

Note 13 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2012[5]					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	1,403	336	329	62	13	-
Liabilities	1,016	380	348	75	27	14
Difference	387	(44)	(19)	(13)	(14)	(14)

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each cash flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 12, “Assets and Liabilities by Linkage Base.”

(3) Excluding Israeli currency linked to foreign currency.

(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.

(5) The format of the disclosure in the note on assets and liabilities by linkage base and by term to maturity has been updated, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," dated September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. For further information, see Note 1.D.4 above. The Company implemented this directive retroactively; comparative figures were classified accordingly.

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return[5]
-	-	-	-	2,143	8	2,149	-
2	59	-	-	1,921	12	1,945	1.87%
(2)	(59)	-	-	222	(4)	204	

Note 14 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2013	2012
	Reported amounts in NIS millions	
Unutilized credit-card credit lines:		
Credit risk on the Company	2,122	2,219
Credit risk on banks	5,901	5,990
Allowance for credit losses	(4)	(4)
Total unutilized credit-card credit lines, net	8,019	8,205
Other liabilities:		
Exposure in respect of merchant credit lines	1	23
Allowance for credit losses	(*-)	(*-)
Total other liabilities, net	1	23

* Amount lower than NIS 0.5 million.

B. Antitrust Issues and Additional Regulation

In October 2006, Isracard, other credit-card companies (not including the Company), and certain banks filed a request with the Antitrust Tribunal for approval of a restrictive arrangement in the area of clearing of transactions in MasterCard and Visa credit cards (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 14 – Contingent Liabilities and Special Agreements (cont.)

C. Legal Proceedings

Several legal claims have been filed against the Company, arising in 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 16, "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., Union Bank Ltd., and UBank Ltd. (jointly, the "**Banks Under Arrangement**").

Note 14 – Contingent Liabilities and Special Agreements (cont.)

F. Contractual Engagements with Banking Corporations (cont.)

The agreements with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the card arrangement to the Company. Each bank is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank. The banks are also responsible for any damage caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. Pursuant to the agreements, the Banks Under Arrangement are entitled to payments according to a formula established in the agreements.

G. Extension of the Agreement with American Express Ltd.

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

H. Contractual Engagements with 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, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, and the Life-Style Club.

Note 15 – 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

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 15 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2013				
		Fair value(a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	12	12	-	-	12
Debtors in respect of credit-card activity, net	1,886	-	-	1,879	1,879
Other financial assets	425	-	-	425	425
Total financial assets	***2,323**	**12**	**-**	**2,304**	**2,316**
Financial liabilities:					
Credit from banking corporations	3	3	-	-	3
Creditors in respect of credit-card activity	2,015	-	-	2,005	2,005
Subordinated notes	56	-	56	-	56
Other financial liabilities	9	-	-	9	9
Total financial liabilities	***2,083**	**3**	**56**	**2,014**	**2,073**

* Of which: assets and liabilities in the amount of NIS 12 million and NIS 3 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 15 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments (cont.)

	December 31, 2012				
		Fair value[(a)]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	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 – 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, 2013					
	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	12	34	-	-	-	-
Debtors in respect of credit-card activity, net[1]	-	-	1	1	-	-
Other assets	-	1	-	-	424	455
Liabilities						
Credit from banking corporations	3	8	-	-	-	-
Creditors in respect of credit-card activity	15	20	-	-	427	441
Subordinated notes	56	57	-	-	-	-
Other liabilities	-	-	*-	*-	*-	*-
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	3,829	4,027	4	4	-	-
Guarantees given by banks	786	819	-	-	-	-
Discounting balance with related party	-	-	-	-	3	3

* 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 16 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	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	13	30	-	-	-	-
Debtors in respect of credit-card activity, net(2)	-	-	*-	*-	-	-
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 16 – 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, 2013		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
Income from credit-card transactions	1	-	40
Net interest income	2	-	1
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(19)
Payments to banks	(48)	-	-
Total	**(46)**	**(1)**	**22**

	For the year ended December 31, 2012		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
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		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
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**

(1) Including their close family members, as defined in IAS 24.

(2) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

Note 16 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2013	
	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, 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	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	5

In addition, in 2013, the Company had salary and related expenses in the amount of approximately NIS 3 million (in 2012 and 2011, approximately NIS 2 million) for 6 employees on loan from Bank Hapoalim.

D. Additional Information

- See Note 11 above – Employee Benefits.
- See Note 14 above – Contingent Liabilities and Special Agreements.

Note 17 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2013	**2012**	**2011**
Income from merchants:			
Merchant fees	290	269	236
Others	1	1	1
Total gross income from merchants	291	270	237
Less fees to other issuers	23	22	21
Total net income from merchants	268	248	216
Income in respect of credit-card holders:			
Issuer fees	12	11	9
Service fees	29	26	23
Fees from transactions abroad	8	7	8
Total income in respect of credit-card holders	49	44	40
Total income from credit-card transactions	**317**	**292**	**256**

Note 18 – Net Interest Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2013	2012	2011
A. Financing income in respect of assets:			
From credit to merchants	2	2	2
From debtors in respect of credit cards	*-	*-	*-
From deposits with banks	4	5	7
From other assets	1	2	1
Total in respect of assets	7	9	10
B. Financing expenses in respect of liabilities:			
To banking corporations	(*-)	(*-)	(1)
On notes	(2)	(2)	(2)
Total in respect of liabilities	(2)	(2)	(3)
Total net interest income	**5**	**7**	**7**

* Amount lower than NIS 0.5 million.

Note 19 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2013	**2012**	**2011**
Wages and related expenses	22	20	21
Data processing and computer maintenance	14	13	11
Automatic Bank Services (ABS)	2	2	2
Royalties to international organization	36	34	29
Amortization and depreciation	1	1	1
Communications	1	1	1
Production and delivery	12	11	11
Damages from abuse of credit cards	1	2	1
Rent and building maintenance	5	5	4
Others	*-	2	1
Total operating expenses	**94**	**91**	**82**

* Amount lower than NIS 0.5 million.

Note 20 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2013	**2012**	**2011**
Wages and related expenses	11	11	11
Advertising	9	5	5
Customer retention and recruitment	11	9	11
Gift campaigns for credit-card holders	23	22	16
Club management fees	4	4	3
Others	4	3	2
Total sales and marketing expenses	**62**	**54**	**48**

Note 21 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2013	**2012**	**2011**
Wages and related expenses	4	4	3
Insurance	*-	1	1
Payments to Isracard[(1)]	19	17	15
Others	4	3	3
Total general and administrative expenses	**27**	**25**	**22**

* Amount lower than NIS 0.5 million.

(1) See Note 14.E above.

Note 22 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item composition:

	For the year ended December 31		
	2013	2012	2011
Current taxes for the accounting year	14	14	11
Current taxes for previous years	-	*-	*-
Deferred taxes for the accounting year	(*-)	(1)	(2)
Provision for taxes on income	**14**	**13**	**9**

* 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		
	2013	2012	2011
Tax rate applicable to the Company in Israel	25%	25%	24%
Tax amount based on statutory rate	14	13	11
Change in balance of deferred taxes due to changes in tax rates	(*-)	-	(2)
Provision for taxes on income	**14**	**13**	**9**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2009, 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	
	2013	2012
From allowance for credit losses	8	7
From benefits for employees	*-	1
Total	**8**	**8**

* Amount lower than NIS 0.5 million.

Note 22 – Provision for Taxes on Operating Profit (cont.)

5. Amendments of the Income Tax Ordinance

A. Corporation tax

The rates of corporation tax relevant to the Company for 2011-2013 are set out below.

2011: 24%

2012: 25%

2013: 25%

An economic plan for 2013-2014 (the Budget Law) was approved by the Knesset plenum on July 30, 2013. Among other matters, the plan includes an increase of the rate of corporation tax from 25% to 26.5% beginning January 1, 2014.

The balances of deferred taxes as at December 31, 2013 were calculated according to the tax rates established in the aforesaid laws, based on the expected tax rate at the date of reversal.

B. National Insurance

The Law for Reduction of the Deficit and Change of the Tax Burden (Legislative Amendments), 2012 (hereinafter: the "**Law**"), was published on August 13, 2012. Pursuant to the Law, beginning in January 2013, the rate of National Insurance fees collected from employers with respect to the part of wages exceeding 60% of the average wage in the Israeli economy rose from 5.9% to 6.5%. The Law was revised in 2014, and the rate was set at 6.75% and 7.25% in 2014 and 2015, respectively. This rate will stand at 7.5% from January 1, 2016 forward.

Note 23 – 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 23 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	49	268	317
Inter-segmental fees	103	(103)	-
Total	152	165	317
Net interest income (expenses)	(*-)	5	5
Other income	1	*-	1
Total income	**153**	**170**	**323**
Expenses (income)			
Provision for credit losses	1	(*-)	1
Operating expenses	55	39	94
Sales and marketing expenses	52	10	62
General and administrative expenses	14	13	27
Payments to banks	35	47	82
Total expenses	**157**	**109**	**266**
(Loss) profit before taxes	(4)	61	57
Provision for taxes on profit	(1)	15	14
Net (loss) profit	**(3)**	**46**	**43**
Return on equity (percent net profit out of average capital)			
Average balance of assets	(1.3)	20.6	19.3
Average balance of liabilities	1,978	268	2,246
Average balance of risk-adjusted assets	117	1,906	2,023

* Amount lower than NIS 0.5 million.

Note 23 – 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 23 – 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	*-	7	7
Other income (expenses)	1	(1)	*-
Total income	**145**	**118**	**263**
Expenses			
Provision for doubtful debts	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	1,545	270	1,815
Average balance of liabilities	98	1,570	1,668
Average balance of risk-adjusted assets	1,287	195	1,482

* Amount lower than NIS 0.5 million.

Note 24 – Information Based on Historical Nominal Data for Tax Purposes

	December 31	
	2013	2012
	Amounts in NIS millions	
Total assets	2,338	2,149
Total liabilities	2,091	1,945
Equity	247	204
Nominal net profit	43	38