THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

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Contents

Deloitte.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE TEL-AVIV STOCK EXCHANGE LTD. ON COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING PURSUANT TO SECTION 9B (c) OF THE ISRAEL SECURITIES REGULATIONS (PERIODIC AND IMMEDIATE REPORTS), 1970.

We have audited components of internal control over financial reporting of the Tel Aviv Stock Exchange Ltd (hereafter: "the Company") as of December 31, 2011. These control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and for the evaluation of effectiveness of the components of internal control over financial reporting included in the report of events and changes which occurred in the Company's business and affected the Company as of the date referred to above. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Company based on our audit.

The components of internal control over financial reporting that we have audited were determined in accordance with Audit Standard 104 "Audit of Components of Internal Control over Financial Reporting" of the Institute of Certified Public Accountants in Israel (hereafter :Audit Standard 104"). These components are: (1) Entity level control, including controls over the process of preparation and closing of financial reporting, and general information technology (IT) controls, (2) controls over financial reporting of targets and financial risk management policy, (3) controls over the process for financial assets, (4) controls over the process of intangible assets and property and equipment, (5) controls over the process of salaries and liability for employee benefits (6) controls over the revenues process. (All of these together are referred to below as "Audited Components of Control").

We conducted our audit in accordance with Auditing Standard 104. This Standard requires that we plan and perform the audit with the purpose of identifying the Audit Components of Control and obtaining a reasonable assurance about whether these components of control were maintained effectively in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audit Components of Control, and also testing and evaluating the design and the operating effectiveness of those components of control based on the assessed risk. Our audit, with respect to those components of control, also included performance of other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, rather than internal controls over all material processes related to financial reporting, and, accordingly, our opinion refers only to the Audited Components of Control. In addition, our audit did not refer to the mutual impact between the Audited Components of Control and those that are not audited, and accordingly, our opinion does not take into consideration such possible impact. We believe that our audit provides a reasonable basis for our opinion in connection with the above.

Due to inherent limitations, internal control over financial reporting in general, and its components in particular, might not prevent or detect misstatement. Additionally, 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 degree of compliance with policies and procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the Audit Components of control as of December 31, 2011.

We have also audited, in accordance with generally accepted auditing procedures in Israel, the financial statements of the Company as of December 31, 2011 and 2010, and each of the three years in the period ended on December 31, 2011, and our report dated March 29, 2012 includes an unqualified opinion on the aforementioned financial statements.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, Israel
March 29, 2012

TEL AVIV - MAIN OFFICE	RAMAT GAN	JERUSALEM	HAIFA	BEER SHEVA	EILAT
1 Azrieli Center Tel Aviv, 67021 P.O.B. 16593 Tel Aviv, 61164	6 Ha'racon st. Ramat Gan, 52521	12 Sarei Israel st. Jerusalem, 94390	5 Ma`aleh Hashichrur st. P.O.B. 5648 Haifa, 31055	Omer Industrial Park, Building No.10 P.O.B. 1369 Omer, 84965	The city center P.O.B 583 Eilat, 88104
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
THE TEL-AVIV STOCK EXCHANGE LTD.

We have audited the accompanying consolidated statements of financial position of The Tel-Aviv Stock Exchange Ltd. ("the Company"), as of December 31, 2011 and 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years ended on December 31, 2011. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a sampling basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit , the aforementioned financial statements present fairly, in all material respects, the consolidated statements of financial position of the Company and its subsidiaries as of December 31, 2011 and 2010, the consolidated statements of comprehensive income and consolidated statements of changes in equity and cash flows for each of the three years ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) and the instructions of the Israel Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 "Audit of Internal Control Components over Financial Reporting" of the Institute of Certified Public Accountants in Israel internal control components over the Company's financial reporting as at December 31, 2011, and our report dated March 29, 2012 included an unqualified opinion with respect to the effective maintenance of those internal control components.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, Israel
March 29, 2012

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THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2011	December 31, 2010
		NIS in thousands	
Assets			
Current assets			
Cash and cash equivalents	4	19,133	24,241
Financial assets at fair value through profit or lost – held for trading	7	259,863	277,410
Trade accounts receivable		8,663	7,143
Assets derived from clearing operations:			
Receivables on open derivative positions	5	1,051,687	1,388,331
Assets with respect to securities that were not transferred to the Tel Aviv Stock Exchange Clearing House on time	6	30,259	13,452
Receivables and other current assets		5,369	3,669
Current tax assets	14	9,017	3,914
Total current assets		1,383,991	1,718,160
Non-current assets			
Investment in associate	8	4,515	4,374
Property and equipment, net	9,10	194,208	144,359
Intangible assets	11	66,500	57,429
Total non-current assets		265,223	206,162
Total assets		1,649,214	1,924,322
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable		23,764	16,780
Liabilities derived from clearing operations:			
Payables on open derivative positions	5	1,051,687	1,388,331
Liabilities with respect to securities that were not transferred to the Tel Aviv Stock Exchange Clearing House on time	6	30,259	13,452
Liability for employee benefits	13	27,197	34,475
Other payables	12	5,272	4,075
Total current liabilities		1,138,179	1,457,113
Non-current liabilities			
Liability for employee benefits	13	5,995	5,540
Deferred tax liability	14	240	3,279
Total non-current liabilities		6,235	8,819
Equity			
Capital reserves		3,200	3,200
Retained earnings		501,600	455,190
Total equity		504,800	458,390
Total liabilities and equity		1,649,214	1,924,322

March 29, 2012			
Date of approving the financial statements:	**Saul Bronfeld Chairman of the Board**	**Ester Levanon CEO and Director**	**Joseph Treister CFO**

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2011	2010	2009
		NIS in thousands		
Service revenue	16			
Trading and clearing fees		158,930	158,343	141,660
Securities listing and annual fees		38,416	41,017	35,835
Clearing house services		28,943	28,441	25,193
Distribution of trading and other data		36,484	34,664	32,869
Other		1,998	2,082	1,445
Total service revenue		264,771	264,547	237,002
Cost of revenues				
Employee benefits expenses	17a	104,903	107,133	97,365
IT and communication		33,086	28,150	25,163
Rent, municipal taxes and building maintenance		12,136	11,306	11,485
General and administrative		12,133	12,012	11,996
Marketing		4,435	3,274	7,358
Fee to Israel Securities Authority		6,007	7,830	8,485
Depreciation and amortization	17b	20,606	17,452	14,856
Premiums for providing collateral to MAOF Risk Fund		11,585	10,805	6,133
Market makers' compensation and other expenses, net		1,127	956	4
Total cost of services sold		206,018	198,918	182,845
Income before financing income (expenses), net		58,753	65,629	54,157
Financing income	18	(1,186)	18,816	29,151
Financing expenses	18	(424)	(442)	(435)
Total net financing income (expenses)		(1,610)	18,374	28,716
Income after financing income, net		57,143	84,003	82,873
Company share in earnings of associate		480	348	427
Income before income taxes		57,623	84,351	83,300
Income taxes	14	11,213	19,166	18,248
Comprehensive income for the year		46,410	65,185	65,052

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity reserves	Retained earnings	Total
	NIS in thousands		
Balance - January 1, 2009	3,200	324,953	328,153
Changes in 2009:			
Comprehensive income for the year	-	65,052	65,052
Balance – December 31, 2009	3,200	390,005	393,205
Changes in 2010:			
Comprehensive income for the year	-	65,185	65,185
Balance - December 31, 2010	3,200	455,190	458,390
Changes in 2011:			
Comprehensive income for the year	-	46,410	46,410
Balance - December 31, 2011	3,200	501,600	504,800

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES			
Comprehensive income for the year	46,410	65,185	65,052
Tax expenses recognized in profit or loss	11,213	19,166	18,248
Net financing expenses (income) recognized in profit or loss	1,610	(18,374)	(28,716)
Depreciation and amortization	20,606	17,452	14,856
Capital loss (profit) from disposal of property and equipment and intangible assets	351	(39)	4
Company share in undistributed loss (income) of associate	(141)	74	(232)
	80,049	83,464	69,212
Changes in asset and liability items:			
Decrease (increase) in trade receivable and other receivables	(3,220)	1,047	3,605
Decrease (increase) in receivables on open derivative positions	336,644	(360,664)	(954,481)
Decrease (increase) in assets with respect to securities that were not transferred to the Tel Aviv Stock Exchange Clearing House on time	(16,807)	22,537	1,296
Decrease in trade accounts payable and other payables	(2,042)	(8,019)	(6,371)
Increase (decrease) in payables on open derivative positions	(336,644)	360,664	954,481
Increase (decrease) in liabilities with respect to securities that were not transferred to the Tel Aviv Stock Exchange Clearing House on time	16,807	(22,537)	(1,296)
Increase (decrease) in assets and liabilities for employee benefits	(6,823)	9,243	2,707
	67,964	85,735	69,153
Interest received	9,752	9,969	8,004
Interest paid	(742)	(461)	(421)
Taxes paid on current operations	(18,736)	(18,736)	(19,548)
	(9,726)	(9,228)	(11,965)
Net cash flow generated from operating activities	58,238	76,507	57,188
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(49,440)	(40,410)	(18,279)
Proceeds from disposal of property and equipment	-	93	-
Acquisition of intangible assets	(7,954)	(10,953)	(6,262)
Payments for development costs capitalized into intangible assets	(12,260)	(10,419)	(9,042)
Disposal (acquisition) of financial assets held for trading, net	6,660	(19,674)	(61,376)
Taxes paid on financial assets held for trading	(320)	(886)	(14)
Net cash flow used in investing activities	(63,314)	(82,249)	(94,973)
Net decrease in cash and cash equivalents	(5,076)	(5,742)	(37,785)
Cash and cash equivalents at beginning of year	24,241	30,080	67,868
Effect of changes in exchange rates on cash balances held in foreign currency	(32)	(97)	(3)
Cash and cash equivalents at end of year	19,133	24,241	30,080

Appendix A- Non-cash activities

Acquisition of property and equipment and intangible assets using borrowings	10,223	10,705	5,247

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

NOTE 1 - GENERAL

A. The Tel Aviv Stock Exchange (“TASE), which is a company limited by the guarantee of its members, was incorporated in 1953, and its registered office is located at 54 Ahad Haam Street, Tel Aviv**.** TASE is engaged in managing a securities stock exchange and in related activities.
The TASE Clearing House Ltd. ("TASE-CH”) is wholly owned by the TASE. TASE-CH was acquired by TASE in September 2006 from the members of TASE-CH and is principally engaged in clearing securities, other than derivatives, and providing Central Securities Depository services.
The MAOF Clearing House Ltd. (MAOF-CH) is a wholly owned subsidiary of the TASE (see note 8a below) and it is primarily engaged in issuing options and futures contracts ("derivatives") and rendering clearing services for these derivatives. Everything in these financial statements regarding the activity of both the TASE-CH and the MAOF-CH is subjected to the bylaws of the CH.

B. This is a translation into English from the original Hebrew financial statements.
In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail.

C. **Definitions:**

The Company or TASE	-	the Tel-Aviv Stock Exchange Ltd.
The Group	-	the Company and its subsidiaries (as defined below).
Subsidiary	-	companies directly or indirectly controlled (as defined in IAS 27) by the Company, whose financial statements are fully consolidated with those of the Company.
Associate	-	a company in which the Group exercises significant influence, and invests in directly or indirectly, is included in the financial statements on the basis of the equity method.
Investee	-	subsidiaries and associates. A list of the investees is presented in Note 8 below.
Related parties	-	as defined in IAS 24 with regard to related parties.
Interested parties	-	as defined in the Israeli Securities Law-1968 and its regulations.
The effective interest method	**-**	a method for computing the amortized cost of a financial asset or a financial liability and of allotting interest income or expenses over the relevant period according to the effective interest rate. The effective interest rate is the rate which accurately discounts the forecasted stream of cash receipts or future payments over the anticipated length of life of the financial instrument, or, as the case may be, a shorter period.
Securities transactions cleared on day T	**-**	Securities transactions where the timing of clearing the inventory of securities is the date of transaction (outstanding, as provided in bylaws) and the date of monetary clearing is the next trading day after the day of executing the trade.
Securities transactions cleared on day T+1	**-**	Securities transactions where the timing of clearing the inventory of securities and the date of monetary clearing is the next trading day after the day of executing the trade.
CPI	-	the Israeli Consumer Price Index, as published by the Central Bureau of Statistics.
Dollar (or $)	-	the US dollar.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Declaration regarding the implementation of International Financial Reporting Standards (IFRS):

The consolidated financial statements of the Group were prepared in accordance with the International Financial Reporting Standards (hereafter: IFRS) and their interpretations published by the International Accounting Standards Board (IASB).

B. The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) - 2010 (hereafter-"financial statement regulations").

C. Basis of preparation of the financial statements:

Until December 31, 2003, Israel was considered to be a hyperinflationary economy. Accordingly, non-monetary items presented at cost in the statement of financial position were adjusted for changes in the CPI through December 31, 2003. From that date onwards, these adjusted amounts served as the basis for reporting in periods subsequent to December 31, 2003 (hereafter-“historical cost”).

The financial statements were prepared on the historical cost basis, except for:

- Financial instruments at fair value through profit or loss. See paragraph M below for information about fair value measurement.
- Property and equipment and intangible assets are presented at the lower of the historical cost less accumulated depreciation and amortization and the recoverable amount.
- Employee benefit obligation, as presented in paragraph Q. below and note 13.

D. Format for presenting the expenses recognized in the consolidated statements of comprehensive income:

The Group expenses in the statement of comprehensive income are presented based on the nature of the expense. In light of the organizational structure of the group it estimates that the classification of expenses in this manner provides more reliable and relevant information.

E. Foreign currency:

(1) Functional currency and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Group, and are rounded to the nearest thousand. The NIS is the currency of the primary economic environment in which the Company operates.

(2) Translation of transactions in currencies other than the functional currency

In the preparation of the financial statements of each Group company, transactions in currencies other than the functional currency of that company (hereafter - “foreign currency”) are accounted for at the exchange rates prevailing on the date of the transactions. At the end of each reporting period, foreign currency monetary items are translated using the closing rate in effect on that date. Non-monetary items measured at historical cost are translated using the exchange rate in effect on the date of the transaction related to the non-monetary asset.

(3) Recognition of exchange rate differences

Exchange rate differences are recognized in profit or loss in the period in which they arise.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Consolidated financial statements:

The consolidated financial statements of the Group include the financial statements of the Company and the entities that the Company controls, either directly or indirectly. Control exists when the Company has the power to govern the financial and operating policies of the held company so as to obtain benefits from its activities.

For consolidation purposes, inter-company transactions, balances, income and expenses have been fully eliminated.

G. Investment in an associate:

An associate is an entity a company over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies.

The results, assets and liabilities of an associate are included in the financial statements by using the equity method. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of comprehensive income, less any impairment in the value of the associate.

H. Cash and cash equivalents:

Cash and cash equivalents include cash on-hand, bank deposits held at call and short-term unrestricted deposits with banks with original maturities of three months or less.

I. Property and equipment:

(1) General

Property and equipment are tangible item that are held for supply of services, which are expected to be used during more than one period.

Items of property and equipment are stated at cost in the statement of financial position less accumulated depreciation and any impairment losses. The cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(2) Depreciation of the property and equipment

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is systematically allocated using the straight-line method over the expected useful lives of components of an item beginning when the asset is ready for its intended us, while accounting for a residual value expected at the end of their useful lives.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Property and equipment (Cont.)

(2) Depreciation of the property and equipment (Cont.)

The useful life and the depreciation rates used for the calculation of depreciations are the followings:

	Useful life	Depreciation rates
Land and building under construction (**)	-	-
Computers systems and auxiliary equipment	3-10 years	10%-33% (mostly 33%)
Equipment and systems (*)	3-16 years	6%-33%
Installations and leasehold improvements (mainly visitors center) (*)	2-3 years	33%-50%

(*) Leasehold improvements and certain items of furniture and equipment are depreciated according to the expected date of moving to the new building. See also note 10 below.
(**) For information about leased land see paragraph K below.

Residual value, depreciation method and the useful lives of the assets are reviewed by management at the end of each fiscal year. Changes are accounted for as a change in accounting estimate and are recognized prospectively.

The gain or loss arising from disposing of or retiring an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss within other expenses.

J. Intangible assets:

(1) General:

Intangible assets are identifiable non-monetary assets with no physical substance.

The useful life used to amortize intangible assets with definite useful life is as follows:

Software and licenses- 3-10 years (mainly 5 years).

(2) Intangible assets are recognized and measured according to the manner of their creation according to the following groups:

a. Intangible assets that are acquired separately

Intangible assets (software and licenses) acquired separately are presented at cost less amortization and any cumulative impairment losses.

Amortization is calculated using the straight-line method over the estimated period of useful life. The estimated useful life and amortization method are evaluated at the end of each reporting year with the effect of changes in estimation accounted for prospectively.

b. Internally generated intangible assets –development costs of computer software for internal use

Costs of preliminary phase of software development project for internal use are recognized as an expense when incurred.

An internally generated intangible asset that is software and computer systems at the development phase is recognized if, and only if, an entity can demonstrate all of the following:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. Intangible assets: (Cont.)

(2) Intangible assets are recognized and measured according to the manner of their creation according to the following groups: (Cont.)

b. Intangible assets from in-house self-development-costs of computer software for internal use (Cont.)

- The ability to measure reliably the expenditure attributable to the intangible asset during its development
- The technical feasibility of completing the intangible asset so that it will be available for use
- The intention to complete the intangible asset and use it
- The ability to use the asset.
- How the intangible asset will generate probable future economic benefits can be determined.
- The availability of adequate technical, financial and other resources to complete the development and to use the intangible asset.

When an internally generated intangible asset cannot be recognized, software development costs are recognized in profit or loss as incurred.

Internally generated intangible assets with defined useful lives are amortized using the straight-line method over their useful lives, and are presented at cost less accumulated amortization and any impairment losses. The estimated life and method of amortization are evaluated at the end of each reporting year with the effect of changes in estimation accounted for prospectively.

K. Leases:

Land leases are classified as financing leases and presented in the statement of financial position within property and equipment, net. Lease payments are amortized on a straight-line basis over the lease period. The land properties are leased for periods of 98 years to 999 years (primarily 140 years).

L. Impairment of assets (except for financial assets):

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication for impairment loss. If such indications exist, the recoverable amount of the asset is estimated to determine the extent of any impairment loss.

The recoverable amount is the higher of the fair value less costs to sell and value in use. To assess value in use, estimated future cash flows are discounted to present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset with no estimated future cash flows.

Where the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense in profit or loss.

Where an impairment loss recognized in prior periods is cancelled, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized to profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. Financial assets and financial liabilities:

(1) Financial assets and financial liabilities (other than clearing operations)

(a) Financial assets – general:

Financial assets of the Group are classified into the categories below. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables.

Loans and receivables are recognized in the statement of financial position when the Group becomes party to the contractual provisions of the financial instrument. Financial assets at fair value through profit or loss are recognized in the statement of financial position on the date of clearing a trade, similarly to financial assets from clearing activity (see note M (2) (a) below).

Investments in financial assets are initially recognized at fair value.

For information on an amendment to IFRS 7 "Financial Instruments: Disclosures" (disclosures of financial asset transfers), see paragraph S below.

For information on the publication of IFRS 9 "Financial Instruments", see paragraph S below.

For information on the publication of IFRS 13 "Fair Value Measurements", see paragraph S below.

(b) Financial assets at fair value through profit or loss:

Financial assets are classified as “financial assets at fair value through profit or loss” when those assets are held for trading purposes. This category includes securities acquired for trading purposes.

A financial asset in this category is presented at fair value. Any gain or loss arising from change in fair value, including those resulting from changes in exchange rate, is recognized in profit or loss during the period in which it arises. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. The fair value of the financial instruments is based on their quoted market prices (determining price) on TASE at the end of the reporting period.

(c) Loans and receivables:

Trade accounts receivable, deposits and other receivables, with fixed or determinable payments that are not quote on an active market, are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized using the effective interest method, except for certain short-term balances, where the amounts of interest to be recognized are immaterial.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. Financial assets and financial liabilities: (Cont.)

(1) Financial assets and financial liabilities (other than clearing operations) (Cont.)

(d) Other financial liabilities:

Trade payables and other payables are classified as other financial liabilities. Other financial liabilities are initially recognized at fair value. Subsequent to initial recognition, other financial liabilities are not measured using the effective interest method, since the interest amounts to be recognized are immaterial.

(2) Financial assets and financial liabilities from clearing operations

(a) General:

The TASE-CH, which is a wholly owned subsidiary of the TASE, is a Central Counter Party (hereafter-“CCP”) for trade in securities (other than derivatives) that are executed on the TASE and also for transfers to trustees (custodian activities) that follow a transaction on the TASE as well as repo transactions and spot transactions in government bonds that are executed through a European trading system for government bonds (hereafter- “MTS system”), and cleared by the TASE-CH.

As a CCP, the TASE-CH is responsible to ensure compliance by a TASE-CH member that is a party to a transaction on the TASE and did not execute its part in the transaction with its obligation towards another clearing house member that is the counterparty to the transaction on the TASE, and has fulfill its part of the transaction. Hence, the clearing house has assets and liabilities (for the seller and buyers, respectively) for each of the transactions performed, as above. The TASE-CH is exposed to no price risk (except in cases of member default), since for each transaction the value of the TASE-CH assets arising from the obligation of the seller is identical to the value of the liability of the TASE-CH towards the buyer.

The Maof Clearing House Ltd ("M-CH"), which is a wholly-owned company of TASE (see note 8 A below, issues derivatives traded on TASE and clears them. M-CH is a CCP for options and futures contracts cleared in M-CH.

As a CCP, the M-CH is responsible to ensure that a M-CH member that is party to an option or futures contract and did not execute its part in the transaction with its obligation towards another clearing house member that is the counterparty to the option or futures contract and fulfills its part of the option or futures contract. Hence, the M-CH has assets and liabilities (for the seller and buyers, respectively) for each option and futures contract cleared by M-CH. The M-CH is exposed to no price risk (except in cases of member default), since for each option and futures contract the value of the M-CH assets arising from the obligation of the seller is identical to the value of the liability of the M-CH towards the buyer.

The clearing houses complete clearing securities transaction on the next business day after the transaction is executed.

Assets and liabilities from clearing house operations as stated (except for assets and liabilities with respect to securities which have not been transferred to the TASE-CH on time, as discussed in note 6) are recorded in the financial statements (recognized or derecognized) on the date a transaction is carried (settlement date) and not on the date the transaction is executed, since these are transactions carried out in the regular way. These are transactions to buy or sell a financial asset under contract, whose terms require the transfer of the asset within a period of time, which, generally, is determined by the rules or practice in the relevant market.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. Financial assets and financial liabilities: (Cont.)

(2) Financial assets and financial liabilities from clearing operations (cont.)

(a) General (Cont)

Accordingly, transactions executed on December 31 but not yet cleared are not presented as assets and liabilities in the statement of financial position.

Financial assets and liabilities with respect to group clearing operations of the Company include assets and liabilities with respect to open positions and securities that were not transferred to the TASE-CH on time (see notes 5 and 6 below). These transactions are measured in each reporting period at fair value. Since the asset and liability positions are identical, the same amount is recognized for both assets and liabilities, and no gains or losses from fair value adjustments are recognized in profit or loss.

(b) Fair value of financial instruments:

The fair value of financial instruments is based on their market price (determining rate) on TASE as of the end of the reporting period. Whenever a certain instrument is not traded on the last trading day of the year, the Group uses valuation techniques based on common economic models for pricing derivatives, using assumptions that are based on the economic conditions existing at the end of the reporting period (see also note 7c below).

(c) Offset of financial instruments:

Financial assets and liabilities are presented in the statement of financial position at a net amount only when the Company has a legally enforceable right to offset and the entity intends to settle on a net basis, or to realize an asset and settle the liability simultaneously.
For information on the publication of IAS 32 "Financial Instruments: Presentation", see paragraph S below.

For information on an amendment to IFRS 7 "Financial Instruments: Disclosures" (setting off financial asset and financial liabilities), see paragraph S below.

N. Income taxes:

(1) General:

Income tax expense represents the sum of the current taxes and also the total change in balances of deferred taxes.

(2) Current taxes:

Current tax expenses are computed based on the taxable income of the Company and subsidiaries in the reporting period. Taxable income differs from pretax income, due to inclusion or exclusion of income and expense items that are taxable or deductible in other reporting periods, or are not taxable or deductible. Current tax assets and liabilities of the Company are calculated using tax rates and tax laws that have been enacted or substantively enacted by the date of the statement of financial position.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. Taxes on income: (Cont.)

(3) Deferred taxes:

Group companies recognize deferred taxes on temporary differences between the tax basis of assets and liabilities and their carrying amount. Deferred tax balances (asset or liability) are calculated using the tax rates that are expected to apply in the period when the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the statement of financial position. Deferred tax liabilities are for the most part recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amount. Deferred tax assets are recognized for all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

In computing deferred taxes, taxes that would have applied when disposing the investment in subsidiaries were not taken into account, since it is the intention of the group to hold and develop these investments. Also, no deferred taxes are recognized for income distributions in these companies, since the dividends are not taxable.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority, and the Group intends to settle current tax assets and liabilities on a net basis.

O. Revenue recognition:

Revenue comprises at the fair value of the consideration received or receivable for services provided in the ordinary course of business.

(1) Revenue from services:

The Group records its revenues from rendering services on the date that the services are provided.

(2) Interest income:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(3) Dividend income:

Dividend income investments in marketable securities held for trading is recognized when the Group's rights to receive payment have been established.

P. Provisions

Provisions are recognized when the entity has a present legal or constructive obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an asset is recognized for the recovered amount if it is virtually certain that reimbursement will be received and that it can be measured reliably.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Q. Employee benefits:

(1) Post-employment benefits:

Post-employment benefits granted by the Group include primarily severance pay liability and pension liability to the widow of a retired manager. Post-employment benefits are partially defined contribution plans and defined benefit plans. Expenses on the obligation for contributing to defined contribution plans are recognized in profit or loss or capitalized into the cost of intangible assets (within cost of self development of computer software) on the date of providing the work services for which the obligation to make a contribution arises.

Expenses on defined benefit plans are recognized in profit or loss or capitalized into the cost of intangible assets (within cost of self development of computer software) using the projected unit credit method, based on actuarial studies conducted at the end of each reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds with terms to maturity approximating the terms of the related plan liability.

Actuarial profits and losses exceeding 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets at the beginning of the period are amortized over the expected average employment period of the employees participating in the plan.

The defined benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation, plus (less) unrecognized actuarial gains (losses) and less the fair value of plan assets.

Any net asset resulting from this calculation is limited to amount of actuarial loss, plus the present value of available refunds and reductions in future contributions to the plan (hereinafter: "the ceiling amount"). See also paragraph S below for information about the publication of IAS 19 (2011) "Employee Benefits".

(2) Other long-term employee benefits:

Other employee benefits in the Group include liabilities for seniority grants. These benefits are recognized in profit or loss by the projected unit credit method based on actuarial assessments conducted at the end of the reporting period. Actuarial gains or losses are expensed in profit or loss as incurred.

(3) Short-term employee benefits:

Short-term employee benefits are benefits which fall due wholly within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include Company liabilities for vacation pay, recreation, bonus and wage payments (including statutory benefits). These benefits are recognized in profit or loss or capitalized into the cost of intangible assets (within cost of self development of computer software) on the date they arise. The benefits are measured on an undiscounted basis the company is expecting to pay. The difference between the sum of short-term benefits the employee is eligible to receive and the amount paid in their respect is recognized as a liability.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Q. Employee benefits: (Cont.)

(4) Termination benefits:

Termination benefits are benefits payable as a result of either a decision of the Group to terminate an employee's employment before normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The liability of the Company for these benefits is initially recognized against profit or loss when the Company is committed, in relation to known and identifiable employees to formal termination including the benefits to which the terminated employees are entitled and the time of termination. Benefits are measured on an undiscounted basis.
For information about the publication of IAS 19 "Employee Benefits", see paragraph S below.

R. Exchange rates and linkage bases:

(1) Balances in foreign currency or linked thereto are recognized in the financial statements using the Bank of Israel representative exchange rate prevailing as of the end of the reporting period.

(2) Balances linked to the CPI are presented at the latest published CPI at the end of the reporting period.

(3) CPI and the dollar exchange rate are as follows:

	Exchange rate (NIS/$)	**CPI In Israel**
Date of financial statements as of:		
December 31, 2011	3.821	110.34
December 31, 2010	3.549	107.60
	%	**%**
Change for the year ended:		
December 31, 2011	7.66	2.55
December 31, 2010	(5.99)	2.28
December 31, 2009	(0.71)	3.82

(4) Exchange and linkage differences are recognized in profit or loss as incurred.

S. New financial reporting standards and interpretations that were published:

(1) New standards and interpretations issued but not yet effective and not early adopted by the Company, which are expected or might have impact on future periods:

- **IFRS 9 "Financial Instruments"**

  The new standard provides guidance on the classification and measurement of financial assets and liabilities.

  The standard also revised the transition provisions to allow practical relief to early adopters.

  The standard is mandatory for annual reporting periods beginning on January 1, 2015. Early adoption is permitted.

  For early adoption, the provisions of IFRS 9 do not apply retrospectively, except for exceptions detailed in the standard.

  Management is assessing the impact of implementing of the standard on the financial statements of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. New financial reporting standards and interpretations that were published: (Cont.)

(2) New standards and interpretations issued and not effective, which were not adopted in early adoption by the Group, which are expected or might have an effect on future periods:

- **Amendment to IFRS 7 "Financial Instruments: Disclosure" (transfer of financial assets)**

  The amendment sets requirements for disclosing risk exposures of an entity relating to transfers of financial assets, where the transferring entity retains some level of continuing exposure to the asset ("continued involvement") and transfers of financial assets derecognized in their entirety closed to the end of the reporting period.

  The provisions of the amendment apply for annual periods beginning on January 1, 2012. Early adoption is permitted. The new disclosures are not required for reporting periods prior to the date of first-time implementation of the amendment.

  Management is assessing the impact of implementing of the standard on the financial statements of the Group.

- **IFRS 10 "Consolidated Financial Statements"**

  The standard provides the following guidance in relation to consolidated financial statements:

  – An investor controls an investee if and only if the investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.
  – The standard provides guidance for assessing the presence of "de-facto control" where an investor has less than half of the voting rights in an investee. In assessing this require considering the size of investor shareholding in the investee, and the size and dispersal of non-controlling interest.
  – Potential voting rights in the investee are taken into consideration for determining control where their terms and conditions give a current ability to direct relevant activities.
  – The standard does not include change in consolidation procedures.

  This standard is applied retroactively, except for exemptions in the standard, to annual reporting periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 (as amended 2011) "Investments in Associates and Joint Ventures" are adopted at the same time.

  At this stage, management is unable to assess the impact of adopting the standard on the financial position and results of operations.

- **IFRS 12 " Disclosure of Interests in Other Entities"**

  The standard establishes disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The objective of the disclosure is to enable the evaluation of the nature of, and risks associated with, interest in other entities and the effects of those interests on the financial statements of the reporting entity.

  This standard is applied retroactively to annual reporting periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 10 "Consolidated Financial Statements"; IFRS 11 "Joint Arrangements" and IAS 28(as amended 2011) "Investments in Associates and Joint Ventures" are adopted at the same time. However, entities are permitted to incorporate any of the new disclosures into their financial statements prior to that date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. New financial reporting standards and interpretations that were published: (Cont.)

(2) New standards and interpretations issued and not effective, which were not adopted in early adoption by the Group, which are expected or might have an effect on future periods: (Cont.)

- **IFRS 13 "Fair Value Measurements"**

This standard replaces existing guidance on fair value measurement in different IFRSs with a single definition of fair value within one standard for guiding fair value measurement. Accordingly, this standard provides guidance on measuring the fair value of all items that are presented in the statement of financial position or otherwise disclosed at fair value.

According to the standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard determines the different approaches for measuring fair value and promotes the use of valuation techniques that maximize the use of observable market inputs. Non-financial assets are measured based on valuing their highest and best use.

The standard will be implemented prospectively for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

Management assesses that the impact of implementing the standard on the financial statements of the Group is immaterial.

- **IAS 19 (2011) "Employee Benefits"**

The standard revises the current guidance in the present version of IAS 19 "Employee Benefits", including the following aspects:

Actuarial gains and losses are recognized in other comprehensive income and no longer recycled through profit or loss in subsequent periods. Hence, the standard eliminates the options of immediately recognizing actuarial gains and losses through profit or loss or using the corridor method.

Interest income on defined benefit plan assets are recognized based on the discount rate used to measure the obligation rather than the expected return on the assets.

Short-term employee benefits include only benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Termination benefits as a result of an offer made in order to encourage voluntary redundancy are recognized when it is without realistic possibility of withdrawal.

The standard will be implemented retroactively, except for exceptions in the standard for annual periods beginning on or after January 1, 2013. Early implementation is permitted.

The Company is assessing the impact of implementing the standard on its financial position and results of operations. For information about an accumulated balance of actuarial losses in the three years ended December 31, 2011, see note 13 B (1) (i).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. New financial reporting standards and interpretations that were published: (Cont.)

(2) New standards and interpretations issued and not effective, which were not adopted in early adoption by the Group, which are expected or might have an effect on future periods: (Cont.)

- **IAS 32 "Financial Instruments: Presentation" (offsetting financial assets and financial liabilities)**

  The standard clarifies that to meet the offsetting requirements for financial assets and financial liabilities, the right to off-set is not contingent on a future event and is enforceable in both the normal course of business and in the event of default, insolvency or bankruptcy. In addition, the amendment states that net settlement criterion may occur when the gross settlement has features that eliminate or result in insignificant credit or liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

  The standard will be implemented retroactively for annual periods beginning on or after January 1, 2014. Early implementation is permitted.

  At this stage, management is unable to assess the effect of implementing the standard on its financial position and results of operations.

- **IFRS 7 "Financial Instruments: Disclosures" (offsetting financial assets and financial liabilities)**

  As part of the project to clarify aspects in IAS 32 as discussed above, additional disclosure on the effect of agreements for netting various financial assets and financial liabilities on the financial position of the entity.

  The amendment will be applied retroactively for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

  At this stage, management is unable to assess the effect of implementing the standard on its financial position and results of operations.

- **IAS 1 (Amendment) " Presentations of Financial Statements " (presentation of other comprehensive income items in the statement of comprehensive income)**

  The amendment requires separating items presented in other comprehensive income into two groups, based on whether or not they may be classified to profit or loss in the future.

T. Standards, amendments to standards and interpretations issued but are not applicable to the Group

In addition to the above amendments and standards, additional interpretations and amendments to standards were published which, in the estimation of the management of the Company, are not applicable to the Group.

NOTE 3 - CRITICAL ACCOUNTING CONSIDERATIONS AND KEY SOURCES OF UNCERTAINTY IN ESTIMATES

A. Critical accounting judgments:

In applying the accounting policies of the Group, management is required in certain cases to make extensive accounting judgment (apart from those involving estimations and approximation as described in paragraph B below). This discretion principally consists of adopting the accounting rule which is the most appropriate in the situation, or providing an acceptable interpretation of an accounting rule that does not give a full or specific response to particular circumstances. A critical accounting consideration is one with consequences which might substantially influence the financial position and operating results of the Company as they are reflected in the consolidated financial statements, and, which under other basic assumptions, could have led to a materially different accounting outcome from that which it presents. By nature, such accounting consideration is, in part, subjective. Nonetheless, in initiating critical accounting considerations, Company management uses its understanding of the accounting policies applicable to its operations as a basis; and, in addition, to the extent relevant, the Company customarily consults external experts in the field.

The following relates to critical accounting judgments, except for those involving estimates (see paragraph B below) made by management in the process of implementing the Group's accounting policies with significant impact on the amounts recognized in the financial statements:

Investment in associate

The Company’s shareholdings in Stock Exchange Offices Ltd. (hereafter-“SOL”) provides it 55.88% of voting rights in SOL, the right to appoint two thirds of the members of SOL's Board of Directors, the right to appoint the Chairman of the Board of SOL and the rights to 10.29% of earnings and participation in the assets of SOL upon liquidation.

Control exists when the Group has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

In order to determine whether the Company has control over SOL, which would require the Company to consolidate the financial statements of SOL into its financial statements, management examines the circumstances which might indicate a relationship where control exists in accordance with the above definition and, among others, in accordance with SIC 12.

The conclusion of this examination was that control does not exist and, therefore, the investment in SOL is presented in the financial statements using the equity method.

NOTE 3 - CRITICAL ACCOUNTING CONSIDERATIONS AND KEY SOURCES OF UNCERTAINTY IN ESTIMATES (CONT.)

B. Estimations and key uncertainties:

When preparing the financial statements, management is required to use estimates or approximations regarding transactions or matters whose ultimate impact on the financial statements cannot be established accurately at the time of preparation. The main basis for determining the quantitative value of such estimates are the assumptions that management decides to adopt, considering the circumstances of the object of estimation as well as the best information available at the time. Naturally, since these estimates and approximations are the result of exercising judgment in an environment of uncertainty, which may be at times especially great, changes in the basic assumptions arising from changes that are not necessarily dependent on management, as well as additional information that may become available to the company only in the future, might lead to changes in the quantitative value of the estimate, and accordingly, also affect the Company's financial position and results of operations.

Therefore, even as estimates or assessments are made using the best judgment and past experience of management, by considering the specific factors of any case, and to the extent relevant, also by relying on external experts, the ultimate quantitative effect of transactions or matters requiring estimation might become known only once these transactions or matters are concluded. As such, actual results, once the final outcomes of an event requires estimation and approximation has become clear, may differ, at times even materially, from these estimates and approximations when they are initially determined and updated over time.

The estimates and their underlying assumptions are evaluated regularly and updated as information becomes available to management or an event occurring subsequent to the latest date of estimation, and had not been available in the previous period where an estimate was produced or tested. Changes in accounting estimates are recorded in the period in which the change in estimate is made or also in subsequent periods, if the consequences of the change may affect both the current period and future periods.

The following are areas whose valuation requires estimation and approximation and the Group's management believes may have a material impact:

Employee benefits:

The present value of the Group's severance pay obligation to its employees is determined using actuarial estimation, which is based on a number of assumptions, including a discount rate and expected rate of salary increases. Changes in the actuarial estimates may affect the carrying amount of the obligation of the Group to pay retirement, termination and pension payments. The Group estimates the discount rate once a year, based on the yield rates of Israeli government bonds. Other key assumptions are determined on the basis of market conditions and accumulated experience of the Group. For more information about the assumptions used by the Group, see note 13.

Provision for legal proceedings

To assess the legal validity of lawsuits and to determine the likelihood of adverse outcome, management relies on the opinion of legal and professional consultants. After these consultants form their legal opinion and the likelihood of a positive decision for the company in the case, both if the company will have to bear these outcomes or has the ability to defer them, management estimates any amount that needs to be recorded in the financial statements.

A different opinion than that of the Company's legal counsel of the existing legal situation, a different understanding than the Company's of contractual engagements and changes arising from relevant legal precedence or additional new facts may impact the amount of the provision for legal proceedings against the Company and thus materially impact the financial position and results of operations of the Group.

NOTE 4 - CASH AND CASH EQUIVALENTS

Composition:

	Interest rate as of December 31, 2011	December 31, 2011	December 31, 2010
		NIS in thousands	
Cash in banks		1,148	2,750
Short-term bank deposits	Mostly 0.75%-2.50%	17,985	21,491
		19,133	24,241

NOTE 5 - RECEIVABLES AND PAYABLES RELATING TO OPEN DERIVATIVE POSITIONS

The following is information on open derivative position balances and their respective collateral:

A. The amount of assets reflects the fair value of the total liability of MAOF-CH members to the MAOF-CH. The value of liabilities reflects the fair value of all liabilities of the MAOF-CH to its members.

The amount of these assets and liabilities is calculated, after offsetting the fair value of the amount of liabilities of a MAOF-CH member towards the MAOF-CH against the fair value of the amount of liabilities of the MAOF-CH to that member, arising from open positions of the member as of that particular expiration date.

The amounts of assets and liabilities as above do not include such offsetting relating to open positions of that member with different expiration dates.

With respect to the fair value of the assets and liabilities that arise from the open positions of all members of the MAOF-CH, which also takes into account the offsetting of debits and credits resulting from the member's open positions with different expiration dates, see note 7 D (1)(b)(5) below.

B. The last expiration date of the derivatives issued by the MAOF-CH through the date of the statement of financial position is June 2012 (mostly through the end of March 2012).

C. For information about the Risk Fund of the MAOF Clearing House and the collateral for derivative transactions of members of the MAOF-CH or under their responsibility, see note 7 D (1) (b) (4).

NOTE 6 - ASSETS AND LIABILITIES WITH RESPECT TO SECURITIES THAT WERE NOT TRANSFERRED TO THE TEL AVIV STOCK EXCHANGE CLEARING HOUSE ON TIME

The following is additional information on the balances of assets and liabilities with respect to securities that were not transferred to the CH on time (“clearing house short”) and their relevant collateral:

A. The amounts of those balances reflect the fair value of securities cleared on day T (date of transaction) while monetary clearing is on day T+1 (the next business day after the transaction day) that were sold on the stock exchange, or ordered to be transferred to a trustee for safekeeping, and where the clearing is under the responsibility of the CH (being a Central Counterparty) and are not present in the clearing accounts of a seller or transferred clearing's member of the CH, as the case may be, on the date stipulated in the bylaws for the transfer to the member who purchased them or the member who maintains the safekeeping trust account, as the case may be.

To secure the above liability by the CH members, they deposited cash with a monetary value of approximately NIS 48 million into bank deposits in the name of the CH (approximately NIS 24 million as of December 31, 2010). These amounts are held in the bank accounts of the CH until the selling or transferring members, as applicable, deposit the above securities in the CH accounts of the entitled members (see also Note 7 D (1) (a) (5) below). These deposits are used as collateral and are not recognized within financial assets in the statements of financial position of the company.

B. See note 7 D (1) (a) (4) with regard to the Risk Fund of the TASE Clearing House and the related collateral.

NOTE 7 - GOALS AND POLICIES FOR FINANCIAL RISK MANAGEMENT

A. Significant accounting policies:

The significant accounting policies and methods that have been adopted to account for financial assets and financial liabilities, including recognition criteria, measurement bases and recognition in profit or loss, are presented in note 2.

B. Financial instrument balances by category:

	December 31,	
	2011	2010
	NIS in thousands	
Financial assets (*)		
Cash and cash equivalents	19,133	24,241
Financial assets at fair value through profit or loss:		
Assets from clearing operations:		
Receivables for open derivative positions	1,051,687	1,388,331
Assets from securities not transferred to TASE-CH on time	30,259	13,452
Financial assets at fair value through profit or loss – held for trading	259,863	277,410
Loans and receivables	10,839	9,403
	1,371,781	1,712,837
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Liabilities derived from clearing operations:		
Payables for open derivative positions	1,051,687	1,388,331
Liabilities with respect to securities that were not transferred to CH on time	30,259	13,452
Financial liabilities at amortized cost	28,200	20,392
	1,110,146	1,422,175

(*) The carrying amount of the financial assets presented above represents the maximum exposure of the Group to credit risk.

C. Fair value of financial instruments:

(1) The financial instruments of the Group mainly include cash and cash equivalents, marketable securities, trade receivables, other receivables, trade payables, other payables, assets and liabilities with respect to securities not transferred to the TASE Clearing House on time, and assets and liabilities for open derivative positions.`

The balances of the Group's financial instruments in the statement of financial position as of December 31, 2011 and 2010 approximate their fair value.

(2) **Fair value measurements recognized in the statement of financial position**

Fair value measurements of financial instruments are classified using the following hierarchy:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - The inputs for the asset or liability that are not based on observable market data (assumptions).

This classification is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

C. Fair value of financial instruments: (Cont.)

(2) **Financial instruments presented at fair value in the statement of financial position (Cont.)**

The following table presents the Group's classification of fair value measurements of financial instruments:

	Receivables and payables for open derivative positions	Assets and liabilities for securities not transferred on time to the TASE Clearing House	Financial assets at fair value through profit or loss -held for trading
		NIS in thousands	
As of December 31, 2011			
Level 1	899,733	30,259	259,863
Level 2	178,200	-	-
	1,077,933	30,259	259,863
Offset between instruments in level 1 and instruments in level 2, in the position of a single member on a single expiration date (see note 5A above)	(26,246)	-	-
Total balance in statement of financial position	1,051,687	30,259	259,863
As of December 31, 2010			
Level 1	806,652	13,452	277,410
Level 2	(*)636,509	-	-
	1,443,161	13,452	277,410
Offset between instruments in level 1 and instruments in level 2, in the position of a single member on a single expiration date (see note 5A above)	(54,830)	-	-
Total balance in statement of financial position	1,388,331	13,452	277,410

(*) Mostly open derivative positions of the C001 dollar and Euro options with an exercise date in January 2011, which were not traded on the last trading day of the year.

Assumptions using in measuring the fair value of receivables and payables for open derivative positions not measured at level 1:

The fair value of open derivative positions in options is measured using the Black and Scholes model based on the following assumptions: the price of the underlying asset, the exercise price, time to expiration, NIS risk-free interest rate, foreign currency risk-free interest rate (in the case of exchange rate options) and the standard deviation of the yield of the underlying asset.

The use of different assumptions could change the amounts of fair value but without impact on profit or loss since the open positions on the asset side and the open positions on the liabilities side are identical, as stated in note 2 M (2) above.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management:

The financial risk management policy of the Group have been formulated to analyze and estimate the risks facing the Group and to set limits for these risks, carry out activities to mitigate them and oversee the risks adherence with the limits.

The Group is exposed to the following financial risks: credit risk, liquidity risk and market risk.

This note provides information on the exposure of the Group to each risk and their management.

(1) Credit risk management:

Credit risk is the risk of financial loss to the Group from a counterparty default.

Credit risk mainly arises from clearing activities performed by the clearing houses where they act as a CCP.

As a CCP, the TASE-CH is responsible for compliance of the obligations of a TASE-CH member that is a party to a transaction on TASE and did not execute its part of the transaction towards another TASE-CH member that is the counterparty to the transaction on TASE that has fulfilled its part of the transaction.

As a CCP, the M-CH is responsible for compliance of the obligations of a M-CH member that is a party to an option or futures contract and did not execute its part of the transaction towards another M-CH member that is the counterparty to the transaction on TASE that has fulfilled its part of the transaction.

Additionally, the Group is exposed to credit risk from investing the financial reserves in cash and securities.

(a) Credit risk of the TASE-CH from clearing activity

The TASE-CH, a wholly owned subsidiary of the TASE, is a CCP for securities transactions (other than derivatives) executed on the TASE, transfers to a trustee for safekeeping (custodian transactions) following stock exchange transactions, and also repo transactions and spot transactions in government bonds executed through a European system for trading government bonds (hereafter: "MTS system") cleared by the CH.

As of December 31, 2011, the TASE-CH has no credit exposure with respect to transactions cleared by it and as to which it is obligated to as a CCP.

The information presented refers to December 31, 2011 (a Saturday), when the credit exposure of the CH was minimal relative to other days of the week, since most transactions executed on the last day of trading for that week have already been cleared on Friday, December 30, 2011. For comparison, the credit risk exposure of the CH to transactions executed on Thursday, December 29 is NIS 640 million.

This exposure is the sum of the TASE-CH exposures to each of its members, where each exposure is the difference between the monetary value of the buy transactions and the monetary value of the sell transactions of each TASE-CH member on that trading day (whenever the monetary value of sell transactions is more than the monetary value of buy transactions, the TASE-CH has no credit exposure to that member).

No assets and liabilities are recognized in the financial statements for these transactions because they are recorded on the settlement date of the transaction and not on the date of executing the transaction, being transactions carried out in a regular way, as stated in Note 2 M (2) (a).

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(a) Credit risk of the TASE-CH from clearing activities (cont.)

In addition, the CH is exposed to credit risk on securities transactions were insufficient inventory of securities is transferred in their respect, including the following:

- In relation to securities cleared on day T+1, the TASE-CH is exposed to credit risk on securities transactions where an insufficient inventory of securities is transferred in their respect ("outstanding trades"). As of December 31, 2011, the TASE-CH has no credit exposure to outstanding trades. The risk exposure to outstanding trades represents the difference between the monetary value of outstanding trades as of the date of the statement of financial position and the monetary value of outstanding trades on the date of executing the transactions.

- In relation to securities cleared on day T, the CH is exposed to credit risk from securities that were not transferred to it on time ("clearing house short") at NIS 30 million (as of December 31, 2010, NIS 13.5 million), see note 6.

The following is information about the different measures taken by the CH to manage the credit risks related to clearing:

1) The CH members

As of December 31, 2011, the TASE-CH has 21 members, 12 of which are bank institutions (including the Bank of Israel) and the others are non-bank members (hereinafter – NBMs).

Only TASE member can be TASE-CH member.

A TASE-CH member has to comply with its duties under the TASE regulations and CH bylaws.

The TASE continuously monitors the compliance of TASE-CH members with the requirements in the TASE regulations and TASE-CH bylaws. The TASE regulations establish, among other things, capital and liquidity requirements for NBMs, including requirements on minimum capital and net free liquid assets, as well as limitations on the activity of NBMs and the credit provided by an NBM to its clients. The TASE regulations also present requirements on credit control and collateral, risk management and control, compliance control, internal control and appropriate insurance coverage.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(a) Credit risk of the TASE-CH from clearing activities (cont.)

1) The CH members (Cont.)

To reinforce the financial soundness of the NBMs, the Board of Directors of the TASE approved in 2010 a new capital adequacy and liquidity model for NBMs. In 2011, regulatory approval was received for amendments in the TASE regulations and guidelines arising from the new model, and NBMs began implementation in their activities.

Concurrently to the implementation of the new capital model, the TASE is working with NBMs to integrate corporate governance standards, technology and business continuity plans.
TASE can take disciplinary actions against TASE members under its regulations, guidelines and CH bylaws.

2) Legislation to promote clearing house stability

To protect the TASE-CH in a case a member cannot perform its obligations, the Israeli Securities Law stipulates, inter alia, that a charge of securities that is given by a TASE-CH member in favor of the TASE-CH has preference over charges in favor of third parties, if the CH has control over the securities in one of the ways prescribed by the Law. The Israeli Securities Law also provides that a charge on securities in favor of the clearing houses can be realized by the CH itself, without an order by a court or Chief Execution Officer, subject to the conditions stipulated in the Law.

The Securities Law also provides that a TASE member buying securities on TASE that are cleared by the TASE-CH is not entitled to the securities bought as aforesaid unless the full consideration for them has been received by the CH.

If the full consideration for them as aforesaid is not received by CH, title to the securities will vest in the CH, all as provided in the Securities Law.

A TASE member selling on TASE securities that are cleared by the CH is not entitled to the consideration that has been received for the sale unless it has transferred to the CH the securities that it has sold as aforesaid.

The following is information about different aspects related to Group policies to manage credit risk related to the operations of TASE-CH:

3) Real time monetary clearing - DVP

Monetary clearing of transactions with relation to securities trades on TASE is executed through a real-time bank transfer system of the Bank of Israel (the Zahav system).

Government bonds, treasury bills and corporate bonds are cleared on day T+1 by means of Delivery versus Payment (DVP) approach, such that the clearing of those securities by the TASE-CH is fully synchronized with the monetary clearing in the Zahav system. DVP clearing improves the risk management mechanisms protecting the TASE-CH from a member default event.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(a) Credit risk of the TASE-CH from clearing activities (cont.)

3) Real time monetary clearing - DVP (Cont.)

Clearing all other types of securities is performed on day T, with a gap of one business day from monetary clearing.

The transition to clearing all securities on day T+1, by means of DVP, was completed on March 18, 2012.

4) Risk fund of The TASE-CH (off-balance sheets)

In order to protect the TASE-CH from credit risk in the event that a member is unable to meet its obligations, a Risk Fund was set up. TASE-CH members pledge collaterals in favor of the TASE-CH to secure their obligations towards the TASE-CH, including securing their share in the Risk Fund in the event a default of another member. The amount of the Risk Fund as of December 31, 2011 is NIS 886 million (December 31, 2010 – NIS 945 million).

According to TASE-CH bylaws, the amount of the Risk Fund is updated every six months (in March and September) to be the higher of the following amounts:

a. The average overall daily clearing turnover, as defined in TASE-CH bylaws – the amount from aggregating the average daily turnover of all members, excluding the Bank of Israel and excluding the five banks with the largest shareholders' equity among member banks, which are not foreign banks as defined in TASE regulations.
b. NIS 150 million.

According to TASE-CH bylaw, the share of each member in the Risk Fund will be revised on each date of update and will be the higher of the following two amounts:

a. The amount of the Risk Fund multiplied by the ratio between the clearing turnovers of a member for the half year ended prior to the time of update and the total clearing turnover of all of members for that period, other than the Bank of Israel.
b. NIS 5 million.

In practice, the collaterals required to the Risk Fund have been deposited as required.

In the first quarter of 2012, the TASE Board of Directors and the TASE-CH Board of Directors approved principles for a new computation method for the TASE-CH Risk Fund. Under the new approved principles, the size of the Risk Fund is based on the size of the largest daily monetary liability by any TASE-CH member for transactions and trades executed with the TASE-CH as a CCP over a six-month period. A monetary liability for this purpose is the difference between the monetary value of buy transactions and the monetary values of sell transactions of a TASE-CH member over that period. The share of each member, under the new computation method, is the amount of the Risk Fund multiplied by the ratio between the average monetary liabilities of a member in the measured period and the total average monetary liabilities of all members, excluding the Bank of Israel, in that period. The frequency of recalculating the size of the Risk Fund will increase to four times annually.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(a) Credit risk of the TASE-CH from clearing activities (cont.)

4) Risk fund of The TASE-CH (off-balance sheets) (Cont.)

The size of the Risk Fund and the share of each member therein under the new method will be implemented beginning in April 2012. An amendment of relevant bylaws was approved by the TASE-CH Board of Directors and TASE Board of Directors.

The assets members are allowed to provide as collateral to the Risk Fund are government bonds, treasury bills and cash. Government bonds provided as collateral are deposited with the TASE-CH, whereas a separate account is opened for each member in the name of the TASE-CH. Cash provided as collateral is deposited with banks whereas a separate account is opened for each member in the name of TASE-CH. The collateral deposited in these accounts as above is the property of the depositing TASE-CH members and gains on the collateral is owned by them. TASE-CH members pledged in favor of TASE-CH the assets in, and rights to these accounts, as stated in TASE-CH bylaws.

Beginning on December 1, 2008, any CH members must deposit at least 25 percent of its share in the Risk Fund in cash. Subject to the above, the composition of the collateral is determined by the members.

5) Collateral for sell transactions of CH members, where the selling members have no sufficient inventory of securities to settle (off-balance sheet balances).

The TASE-CH holds the following collateral to protect itself from a situation in which TASE-CH members have insufficient inventory of securities to settle the executed transactions:

a) For securities cleared on day T.

To secure the obligations of TASE-CH members to deliver securities they sell and are not in their account as of the date indicated by the bylaws ("CH short"), which amounts as of the date of the statement of financial position to NIS 30 million, the TASE-CH retains in its bank accounts the funds received in such trades with an added safety margin as indicated in the bylaws (a total of NIS 48 million as of the date of the statement of financial position) until such securities are received.

See Note 6 for additional information.

b) For securities cleared on day T+1

To secure the liability of TASE-CH members relating to securities they sell and are not in their accounts ("outstanding trades"), which amount and for which no credit risk is present as of the date of the statement of financial position, the TASE-CH holds in its bank accounts collateral at the value of the deliverable security multiplied by the safety margin established in the bylaws (NIS 6 million as of the date of the statement of financial position), until the outstanding trades are cleared and settled.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(b) Credit risk of the MAOF-CH from clearing activities

MAOF-CH, which is a wholly-owned subsidiary of the TASE (see note 8 A below), issues and clears derivatives that are traded on the TASE. MAOF-CH is a CCP to options and futures contracts that are cleared by it.

The maximum credit exposure of MAOF-CH as a CCP for derivative open positions as of December 31, 2011 is NIS 1,052 million (as of December 31, 2010 – NIS 1,388 million).

The following information presents the various aspects related to managing credit risks relating to the activity of the MAOF-CH:

1) MAOF-CH members

As of December 31, 2011, the MAOF-CH has 9 members. All members are currently banks.

Only TASE members can be MAOF-CH members.

A MAOF-CH member has to comply with its duties under TASE regulations and TASE-CH bylaws. A MAOF-CH member wishing to clear transactions of a TASE member that is not a MAOF-CH member ("NMCM") is required to meet more stringent condition.

If a MAOF-CH member is also a member of the TASE-CH, it has to comply with the bylaws of TASE-CH, which are part of it duties as a TASE-CH member.

MAOF-CH bylaws state, among other things, the terms of membership eligibility for MAOF-CH. One eligibility term is that only a TASE a MAOF-CH member with equity of at least NIS 143 million can be a MAOF-CH member.

Also, under TASE regulations, a MAOF-CH member may not execute proprietary or client transactions in an amount that causes the required collateral for derivative transactions on the TASE, for proprietary and client transactions, to be more than 150% of its equity.

The TASE oversees the compliance of TASE members with the requirements in TASE regulations and bylaws of MAOF-CH.

2) Legislation on clearing house stability (see note 7 D (1) (a) (2) above).

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(b) Credit risk of the MAOF-CH from clearing activities (cont.)

3) Ongoing collateral for derivative activity (off-balance sheet balances)

MAOF-CH member deposit ongoing collateral for their derivative activity. The collateral requirement for MAOF-CH is based on a set of scenarios in the MAOF-CH bylaws, and computed in real-time by a computer system ("Mabat"). The system alerts when a member is required to provide additional collateral, and in such case, the member is required to deposit collateral within 20 or 30 minutes from the time of the alert, as indicated in MAOF-CH bylaw.

The assets that members can provide as collateral are government bonds, Israeli treasury bills and cash. Government bonds and treasury bills that are provided as collateral are deposited with the TASE-CH, where a separate account is created for each member in the name of the MAOF-CH. Cash provided as collateral is deposited with banks where a separate bank account is opened for each member in the name of the MAOF-CH. The collateral deposited in those accounts is owned by the depositing MAOF-CH, and gains derived from the collateral are owned by the members. MAOF-CH members pledged the assets in, and rights to these accounts in favor of the MAOF-CH, as stated in MAOF-CH bylaws.

The total ongoing collateral requirement as of December 31, 2011 for derivative transactions is NIS 2,595 million (as of December 31, 2010 – NIS 3,420 million).
In practice, collateral are deposited with MAOF-CH members as required.

4) The Risk Fund of MAOF-CH (off-balance sheet balances)

A member of the Clearing House pledges collateral as a guarantee for meeting its obligations towards the Clearing House as well as to secure its share in the Risk Fund. The amount of the Risk Fund as of December 31, 2011 was NIS 1,060 million (December 31, 2010 was NIS 1,020 million).

Under the CH bylaws, the amount of the Risk Fund is updated every calendar quarter and is to be the higher of 1. The average daily amounts of collateral demanded during the prior quarter from MAOF Clearing House members not included among the five banks that are members in the MAOF Clearing House with the highest shareholders' equity among the banks that are members of the MAOF Clearing House.

2. One third of the average daily amount of collateral demanded during the prior quarter from all MAOF Clearing House members.

3. NIS 200 million.

Under the CH bylaws, the share of each member of the Risk Fund will be updated every time there is an update and will be the higher of the following two amounts:

1. The amount of the Risk Fund multiplied by the relationship between the average daily amounts of collateral demanded at the start of the trading days from the member and the total average daily amounts of collateral demanded at the start of the trading days from all MAOF Clearing House members in the previous quarter.

2. NIS 5 million.

In practice, the collateral is deposited in the Risk Fund as required.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(b) Credit risk of the MAOF-CH from clearing activities (cont.)

4) The Risk Fund of MAOF-CH (off-balance sheet balances) (cont.)

The assets the members are allowed to give as collateral are government bonds and cash. The government bonds provided as collateral are deposited in the TASE Clearing House with a separate account being opened for each member in the name of the MAOF Clearing House. Cash provided as collateral is deposited with banks with a separate account being opened for each member in the name of the MAOF Clearing House (see paragraph 3 above) . Such collateral that is deposited in these accounts is the property of the members of the MAOF Clearing House which deposited them and the income received from the collateral belongs to the members. MAOF-CH members pledged the assets in, and rights to these accounts in favor of the MAOF-CH, as stated in MAOF-CH bylaws.

Commencing on December 1, 2008, each MAOF Clearing House member must deposit at least 25% of his share in the Risk Fund- in cash. Subject to the aforesaid, the composition of the collateral is set by the members.

5) Offset right

Pursuant to the bylaws of the MAOF-CH, in the event of a member default and in other cases as provided in the bylaws of the MAOF Clearing House, the MAOF Clearing House has the right to offset any type of member charges towards it, including positions with different expiration dates, against any charge of the MAOF Clearing House towards that member.

The fair value of the assets and liabilities that result from the open positions of all members of the MAOF Clearing House, which also takes into account the offset of debits and credits from open positions of a member with different expiration dates, is NIS 1,025 million (as of December 31, 2010 - NIS 1,300 million).

(c) Investments in securities and cash of the financial balances of the Group:

The financial reserves of the Group are invested in securities and in short-term bank deposits and managed in a blind trust by 9 portfolio managers, each of which is a TASE member, a company controlled by a TASE member or a "parent company" of a TASE member or controlled by a "parent company" of a TASE. The TASE reduces the credit risk exposure to these investments by adopting an investment policy, which establishes certain limits on such investments including on the types of securities in which the portfolio manager is permitted to invest, portfolio composition (at least 80% is invested in government bonds with limited Average Life to Maturity (ALM), treasury bills and bank deposits), the maximum foreign currency exposure, the maximum portfolio value any one portfolio manager can administer and the maximum proportion of holdings in securities of one entity.

The investment policy is annually approved by the Boards of Directors of companies in the TASE Group and a subcommittee of the TASE's Board of Directors evaluates the investment policies and risk limits, and recommends changes where necessary. Ongoing control is also performed by an external service provider (Certified Public Accountant) to assess the compliance by portfolio managers with the policy set. Audit findings are reported to the Audit Committee of the TASE and to the boards of members in the TASE group once a year.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(1) Credit risk management (cont.)

(c) Investments in securities and cash of the financial balances of the Group (cont.)

The following is the composition of the investment portfolio of securities and cash:

	December 31	
	2011	**2010**
	NIS in thousands	
Shares	45,043	54,916
Government bonds and treasury bills	214,820	221,772
Other	-	722
Total securities	259,863	277,410
Cash	19,133	24,241
Total	278,996	301,651

(2) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when their payment is due. The liquidity risk exposure of the Group is low.

The anticipated payment dates of the great majority of the financial liabilities which arise from clearing operations of the TASE-CH, as detailed in paragraph D (1) above, are within one day of the date of statement of financial position.

The anticipated repayment dates of the financial liabilities that arise from clearing operations of the MAOF-CH (payables for open derivative positions) are as follows:

	December 31	
	2011	**2010**
	NIS in thousands	
Up to one month after end of reporting period	620,976	961,975
1-2 months	358,450	222,184
2-3 months	66,226	200,753
Up to 12 months	6,035	3,419
	1,051,687	1,388,331

The above amount of financial liabilities from clearing operations and their anticipated repayment dates matches the amount of the financial assets from clearing operations and their anticipated repayment dates.

Members of the clearing houses pledged collateral to their respective clearinghouses to secure their liabilities to the clearing houses and their share in risk funds of the clearing houses.

The assets used as collateral to the clearing houses are cash, government bonds and treasury bills.

To ensure continuous operation of the CH in the event that a member does not meet its obligation towards the CH ("a member default"), each member must deposit a minimum of 25% of its share in the risk fund of the CH in cash.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(2) Liquidity risk management (cont.)

In order to provide liquidity to the CH in an event of a member default, and to be able to meet its obligation as a CCP, the CH is negotiating an agreement with a financial institution, whereby in the event of a member default, the CH will have the right to demand the financial institution to buy from it government bonds and treasury bills received from members as collateral, and the financial institution will be obligated to buy them, subject to terms and conditions as detailed in the agreement.

In addition, a number of steps have been taken for maintaining the financial soundness of the clearing houses, as follows:

(a) The Board of Directors of the TASE in a meeting on November 18, 2010, prescribed that until it is decided otherwise, the minimal size of the financial reserves (equity less property and equipment, intangible assets and investment in associate) of the TASE Group is NIS 150 million. Should the reserves decline below this amount, the Board of Directors will discuss the need to obtain external financing. As of December 31, 2011, the financial reserves of the TASE Group amount to NIS 240 million.

As of December 31, 2011:

	NIS in thousands
The TASE	82,805
MAOF-CH	117.869
TASE-CH	38,903
	239,577

A transfer between companies in the TASE Group is conditioned on advance approval of the relevant institutions in the Group (see also note C below).

(b) A commercial bank provides the TASE-CH with a line of credit of up to NIS 30 million against appropriate collateral, to provide immediate liquidity to the extent necessary (a member default on compliance of a member with his obligations).

(c) For information about TASE resolutions on granting loans to the TASE-CH and the MAOF-CH, see note 19 D (1).

(3) Market risk management:

(a) Price risk:

1) In clearing transactions, The CH does not bear a price risk, except in a case in which a member does not pay for his securities activities. The CH manages price risks relating to its operations through the Risk Fund – see paragraph D (1) (a) and (b) above.

2) The Company has investments in shares as discussed in paragraph D (1) (c) above. Accordingly, the Company has exposure to changes in the fair value of these financial assets as a result of changes in their market price. The investment policy that permits investment in shares of not more than 20% of the total value of the portfolio reduces the exposure of the financial assets to extreme volatility in their market value.

NOTE 7 - PURPOSES AND POLICIES OF FINANCIAL RISK MANAGEMENT (CONT.)

D. Goals and policies of risk management (cont.)

(3) Market risk management: (Cont.)

(a) Price risk: (Cont.)

2) (Cont.)

The pre-tax effect of a ±8% and ±15% change in the prices of financial assets exposed to such price risk is as follows:

December 31, 2011			December 31, 2010		
Total equity instruments	Change of ±8%	Change of ±15%	Total equity instruments	Change of ±3%	Change of ±6%
NIS in millions					
45	3.6	6.75	55	1.65	3.3

(b) Interest risk:

The Company has investments in bonds and in bank deposits at variable interest rates, creating a cash flow exposure to changes in interest.

The investment policy restricting the duration of bonds in the portfolio reduces the exposure to changes in interest rates.

The table below presents the pre-tax effect of a ±1% and ±2% change in interest rates on deposits and bonds mentioned:

December 31, 2011			December 31, 2010		
Amount of instruments with variable interest	Change of ±1%	Change of ±2%	Amount of instruments with variable interest	Change of ±1%	Change of ±2%
NIS in millions					
20.2	0.2	0.4	27.3	0.27	0.55

In addition, the Company has investments in financial instruments with fixed interest, measured at fair value through profit or loss, creating an exposure to changes in fair value as the result of changes in interest rates.

The table below presents the pre-tax effect of a ±1% and ±2% change in the fair value of these bonds:

December 31, 2011			December 31, 2010		
Amount of instruments with fixed interest	Change of +/- 1%	Change of +/- 2%	Amount of instruments with fixed interest	Change of +/- 1%	Change of +/- 2%
NIS in millions					
212.7	7.5	15	216.6	6.8	13.5

(c) Linkage bases:

The Company's exposures to foreign currency risks and CPI risks are negligible. Most financial assets and financial liabilities of the Company are measured at their fair value, based principally on market prices (prevailing rate).

NOTE 8 - INVESTMENT IN INVESTEES

A. Subsidiaries:

Name of Company	Country of incorporation	Rate of holding of capital and voting rights as of December 31, 2011 and 2010	Amount of investment As of December 31, 2011	Amount of investment As of December 31, 2010
			NIS in thousands	
MAOF Clearing House Ltd.	Israel	(*)100%	117,869	110,390
TASE Clearing House Ltd.	Israel	100%	39,395	39,129

(*) TASE-CH holds one share of the 3,000,079 issued and paid up shares of MAOF-CH (the remaining shares are held by the TASE).

B. Associate:

(1) The Company's shareholdings in Stock Exchange Offices Ltd. (hereafter-"SOL") provides it 55.88% of voting rights in SOL, the right to appoint two thirds of the members of SOL's Board of Directors, the right to appoint the Chairman of the Board of SOL and the rights to 10.29% of earnings and participation in the assets of SOL upon liquidation.

SOL was incorporated in Israel.

(2) Composition:

	December 31, 2011	December 31, 2010
	NIS in thousands	
Cost of shares	7,285	7,285
Share in earnings accumulated since acquisition, net	4,861	4,380
Dividends received	(7,631)	(7,291)
Total	4,515	4,374

(3) Dividends declared subsequent to the date of statement of financial position

Subsequent to the date of statement of financial position, SOL declared dividends of NIS 2,500 thousand. The Company's share of the dividends is approximately NIS 257 thousand.

(2) Condensed data from financial statements of associates

	December 31, 2011	December 31, 2010
	NIS in thousands	
Current assets	9,883	10,754
Investment property	41,680	37,920
Current liabilities	(26)	(46)
Non-current liabilities	(7,673)	(6,132)
Assets less liabilities, net	43,864	42,496
Stake of Group in shareholders' equity of associate - per stake in earnings	4,515	4,374

NOTE 8 - INVESTMENT IN INVESTEES (CONT.)

B. Associates: (Cont.)

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Revenue	7,119	3,864	4,351
Net income	4,668	3,378	4,153
Stake of Group in earnings of associate	480	348	427

NOTE 9 - LAND RIGHTS

A. In 2007, the Company entered into agreements for the acquisition of title, possessing, use and leasing rights of land designated for the construction of a new building for the TASE.

In 2010, the Company signed a leasing agreement with the Tel Aviv Municipality for an underground space for a period of 49 years with an option for an additional 49-year extension and paid lease fees at NIS 2.3 million, according to an appraisal.

The Company is currently in the process of constructing the building. The move to the new building is anticipated in the first quarter of 2013.

B. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Land title	19,799	19,799
Land under capital lease (lease rights for various periods ending in 2107- 3003)	39,936	39,936
	(*) 59,735	(*) 59,735

(*) Most of rights in land have been registered in the name of the TASE at the Bureau of Land Registration. The registration of some of the rights has not yet been completed due to technical difficulties and the TASE actively pursue their registration.

NOTE 10 - PROPERTY AND EQUIPMENT

Composition and movement:

	Land and buildings under construction (1)(2)	Computer systems and related equipment	Equipment and systems	Motor vehicles	Leasehold improvements (mainly visitor center)	Total
	NIS in thousands					
Cost:						
Balance - January 1, 2011	116,741	56,877	10,149	-	7,972	191,739
Additions during year (3)	47,761	11,573	272	-	6	59,612
Disposals during year	-	(1,463)	(1,275)	-	(456)	(3,194)
Balance - December 31, 2011	164,502	66,987	9,146	-	7,522	248,157
Balance - January 1, 2010	74,219	49,765	9,434	261	8,065	141,744
Additions during year	42,522	7,653	820	-	120	51,115
Disposals during year	-	(541)	(105)	(261)	(213)	(1,120)
Balance - December 31, 2010	116,741	56,877	10,149	-	7,972	191,739
Accumulated depreciation:						
Balance - January 1, 2011	-	31,457	8,344	-	7,579	47,380
Depreciation for year	-	8,680	770	-	278	9,728
Disposals during year	-	(1,463)	(1,246)	-	(450)	(3,159)
Balance - December 31, 2011	-	38,674	7,868	-	7,407	53,949
Balance - January 1, 2010	-	24,808	7,146	179	6,798	38,931
Depreciation for year	-	7,188	1,303	31	993	9,515
Disposals during year	-	(539)	(105)	(210)	(212)	(1,066)
Balance - December 31, 2010	-	31,457	8,344	-	7,579	47,380
Depreciated carrying value:						
December 31, 2011	164,502	28,313	1,278	-	115	194,208
December 31, 2010	116,741	25,420	1,805	-	393	144,359

(1) See note 9 for information on rights to land.
The balance includes construction costs of NIS 104,767 thousand.

(2) Commitments for the construction of the building:
The Company engaged with contractors and various suppliers. The balance of commitments as of December 31, 2011 is NIS 80 million.

(3) Including payments on account of acquiring property and equipment as of December 31, 2011 as follows:

Within the land and building under construction item – NIS 7,901 thousand.
Within the computer system and related equipment item – NIS 84 thousand.

NOTE 11 - INTANGIBLE ASSETS

Following is the composition and changes in this item:

	Software and licenses	Goodwill	Total
	NIS in thousands		
Cost:			
Balance as of January 1, 2011	109,943	492	110,435
Acquisitions	8,005	-	8,005
Capitalization of expenses on software development activities	12,260	-	12,260
Disposals during year	(316)	-	(316)
Balance as of December 31, 2011	129,892	492	130,384
Balance as of January 1, 2010	92,387	492	92,879
Acquisitions	10,953	-	10,953
Capitalization of expenses of software development activities	10,419	-	10,419
Disposals during year	(3,816)	-	(3,816)
Balance as of December 31, 2010	109,943	492	110,435
Accumulated amortization:			
Balance as of January 1, 2011	53,006	-	53,006
Amortization	9,878	-	9,878
Impairment losses	1,000	-	1,000
Balance as of December 31, 2011	63,884	-	63,884
Balance as of January 1, 2010	48,885	-	48,885
Amortization	7,937	-	7,937
Disposals during year	(3,816)	-	(3,816)
Balance as of December 31, 2010	53,006	-	53,006
Amortized cost			
As of December 31, 2011	66,008	492	66,500
As of December 31, 2010	56,937	492	57,429

NOTE 12 - ACCOUNTS PAYABLE

Composition:

	December 31, 2011	December 31, 2010
	NIS in thousands	
Institutions	159	4
Accrued expenses on premium to MAOF-CH Risk Fund	2,650	2,549
Other payables and accrued expenses	1,731	1,013
Clearing House members - payables for interest	55	50
Deferred income	677	459
	5,272	4,075

NOTE 13 - EMPLOYEE BENEFITS

A. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Post-employment benefits under defined benefit plans (see paragraph B(1)(f) below):		
Retirement benefit obligation	2,987	2,089
Pension obligation	1,789	2,261
	4,776	4,350
Other long-term employee benefits for seniority grant (see paragraph C below)	1,219	1,190
Short-term employee benefits (see note 13 E below)	27,197	34,475
	33,192	40,015

Presentation in the statement of financial position:

Employee benefits obligation:

	December 31,	
	2011	2010
	NIS in thousands	
Current	27,197	34,475
Non-current	5,995	5,540
	33,192	40,015

B. Post-employment benefits:

(1) Defined benefit plans

(a) General

Retirement benefit obligation

Labor law and the Israel Severance Pay Law require the Company to pay retirement benefits to an employee at the time of dismissal or retirement (including employees who leave the Company under other specified circumstances). The calculation of the obligation related to the termination of employee-employer relations is carried out pursuant to the collective bargain agreement in effect and is based on the latest salary of the employee and also employee tenure.

Such obligation is computed using an actuarial estimate by a qualified actuary. The present value of the obligation for defined benefit and the costs related to current service are measured through the use of the projected unit method.

For information about grants to the Chairman of the Board and CEO upon retirement, see paragraphs (i) and (j) below.

The pension liability represents the Company's obligation to pay the widow of a former CEO, who retired in 1983 (and died in 2011), a life annuity at 65% of the annuity to the former CEO. The pension liability has been included based on an actuarial computation, capitalized at a real interest rate of 1.84% that conforms to the real market yield of government bonds for the period calculated (as of December 31, 2010 – 1.7%).

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. Post-employment benefits: (Cont.)

(1) Defined benefit plan (Cont.)

(b) Major actuarial assumptions with respect to retirement benefits as of the end of reporting period

	December 31	
	2011	2010
	%	%
Discount rate (*)	4.96	5.33
Forecasted yield rates on plan assets (*)	4.96	5.33
Forecasted rates of salary increases (real):		
Employees	3.00	3.50
Executives	Mainly 2.0	3.50
Forecasted inflation rates	2.51	2.70
Rates of turnover:		
Employees	(**) 2	(**) 2
Executives	-	-
Rate of retirement benefits on resignation	100	100

(*) The discount rate is based on the yield of Israeli government bonds. The forecasted return on plan assets is based on government bond yield for the term of obligation.

(**) In the first ten years of employment, turnover is 3.5%.

(c) Amounts recognized in operations with respect to the defined benefit plan

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Current service cost	4,538	4,430	4,352
Interest cost	4,398	4,059	3,421
Forecasted yield on plan assets	(2,637)	(2,556)	(1,955)
Actuarial losses (income) for pension	(292)	530	336
Actuarial losses for retirement benefits (beyond the corridor)	162	-	150
	6,169	6,463	6,304

The expense is included in its entirety in “employee benefits expenses” in the context of “cost of revenues”.

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. Benefits after termination of employment: (Cont.)

(1) Defined benefit plan (Cont.)

(d) Movement in the present value of the obligation with respect to the defined benefit plan

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Opening balance	83,903	70,742	62,726
Current service cost	4,538	4,430	4,352
Interest cost	4,398	4,059	3,421
Actuarial loss (gain) for retirement benefits	(*)(5,940)	5,794	729
Retirement benefits paid	(2,086)	(1,313)	(493)
Pension benefits paid	(278)	(339)	(329)
Actuarial loss (gain) on pension	(292)	530	336
Closing balance	84,243	83,903	70,742

(*) Mainly due to the effect of change in assumed expected pay increased to executives, following the adoption of a multi-year compensation model, as discussed in note 13 B (1) (L)

(e) Movement in fair value of plan assets

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Opening balance	69,217	63,250	53,555
Forecasted yield on plan assets	2,637	2,556	1,955
Actuarial gain (loss)	(2,196)	496	3,892
Employer contributions	5,065	4,228	4,170
Benefits paid	(1,686)	(1,313)	(322)
Closing balance	73,037	69,217	63,250

(f) Reconciliation of the present value of defined benefit obligation and the fair value of plan assets to assets and liabilities recognized in the statement of financial position

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Present value of funded obligations	82,454	81,642	68,753
Fair value of plan assets	(73,037)	(69,217)	(63,250)
	9,417	12,425	5,503
Present value of unfunded obligations	1,789	2,261	1,989
	11,206	14,686	7,492
Unrecognized net actuarial gain (loss)	(6,430)	(10,336)	(5,038)
Net liability derived from obligation for defined benefit	4,776	4,350	2,454

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. Benefits after termination of employment: (Cont.)

(1) Defined benefit plan (Cont.)

(g) Actual yield on plan assets

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Forecasted yield on plan assets	2,637	2,556	1,955
Actuarial gains (losses)	(2,196)	496	3,892
Actual yield on plan assets	441	3,052	5,847
After transfer to pension in the amount of	1,144	1,222	1,107

(h) Comparison to previous years

	Year ended December 31				
	2011	2010	2009	2008	2007
	NIS in thousands				
Present value of defined benefit obligation	84,243	83,903	70,742	62,726	54,715
Fair value of plan assets	(73,037)	(69,217)	(63,250)	(53,555)	(49,320)
Plan deficit	11,206	14,686	7,492	9,171	5,395
Adjustments to plan liabilities based on past experience	(*) 351	1,591	(3,425)	424	862
Adjustments to plan assets based on past experience	(1,534)	476	3,684	(5,585)	583

(*) See comment in paragraph d above.

(i) Cumulative balance of actuarial gain (loss)

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Unrecognized actuarial loss as of January 1	(10,336)	(5,038)	(8,351)
Actuarial gain (loss) created during current period on plan obligation and assets	4,036	(5,828)	2,827
Portion of actuarial gain (loss) recognized in profit or loss (*)	(130)	530	486
Unrecognized actuarial gain (loss) as of December 31	(6,430)	(10,336)	(5,038)

(*) Charged to profit or loss during current year.

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. Benefits after termination of employment: (Cont.)

(1) Defined benefit plan (Cont.)

(j) (Cont.)

In March 2006 the TASE board of directors resolved to appoint the former CEO as board chairman with effect from June 2006, and in December 2006 a contract of employment was made with the board chairman for a term of five years. According to the contract, at the end of his employment the board chairman is entitled to an additional retirement bonus equal to his last monthly salary as CEO of the TASE (as defined in the contract) per year of employment by the Company until May 2006 (the date of his appointment as board chairman). The liability for retirement and severance pay in the financial statements therefore also includes a liability for the whole additional retirement bonus as aforesaid. In certain circumstances of employment termination before or at the end of the term of employment, the board chairman is entitled to three months' special retirement leave.

On 31st March 2011 the board of directors elected Mr Bronfeld for a second five year term of office that will end in 2016. The chairman of the Securities Authority has confirmed that the said appointment is with his agreement.

In May 2011 the TASE organs approved the terms of the board chairman's employment during his second term of office as set out in the contract with him of 3rd December 2006 and prescribed that those terms of employment will apply from 1st June 2011 until the determination of new terms of employment, as set out below.

It was also prescribed that after the TASE organs have approved a new remuneration model for the TASE officers, a proposal will be referred to the TASE organs for the approval of a new contract in respect of the board chairman's remuneration in accordance with the new remuneration model that is approved.

On 29th December the TASE board approved a multi-year remuneration model for the TASE CEO and also for the members of its management and vice presidents. In the said resolution it was provided that there will be no link between the salary of the board chairman and that of the CEO and that their salaries will be reviewed separately and independently (see paragraph (l) below). The Stock Exchange organs are currently holding discussions with regard to the approval of the board chairman's new contract of employment.

(k) In March 2006 the TASE board of directors resolved to appoint the former deputy CEO as CEO with effect from June 2006, and in December 2006 a contract of employment was made, pursuant whereto the CEO is entitled, at the end of her term of employment in 2011, to an additional retirement bonus equal to one month's salary per year of employment with the Company as CEO, in addition to the regular amounts at the usual rates that are deposited for her in executive insurance plans and to a bonus in an amount equal to three months' salary. The liability for retirement and severance pay in the financial statements therefore also includes a liability in respect of the proportionate period of entitlement accrued from June 2006 until the date of the statement of financial position in respect of the said retirement bonuses. In certain circumstances of employment termination, the CEO is entitled to the retirement bonuses as aforesaid even before the end of the term of her employment.

On 31st March 2011 an extension of the CEO's tenure for a further four years, ending in 2015, was approved.

In May 2011 the TASE organs approved the terms of the CEO's employment during her second term of office as set out in the contract of 30th November 2006 and prescribed that such terms of employment will apply from 1st June 2011 until the determination of new terms of employment, as set out below.

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. Benefits after termination of employment: (Cont.)

(1) Defined benefit plan (Cont.)

(k) (Cont.)

It was further prescribed that after the TASE organs approve a new remuneration model for its officers, a new draft contract will be referred to the TASE organs for approval with regard to the CEO's remuneration in accordance with the new remuneration model that is approved.

On 29th December the TASE board of directors approved a multi year remuneration model for its CEO and also for the members of management and its vice presidents (see paragraph (l) below). The TASE organs are currently holding discussions with regard to the approval of the CEO's new contract of employment.

(l) On 29th December 2011 the Company's board of directors approved a multi-year remuneration model for its senior executives, made up of salary and bonuses, without an equity element. The model is based on a benchmark analysis of the remuneration of the Company's senior executives compared with the remuneration of the officers of Israel public companies that are connected with the financial sphere, including weighting the remuneration of the senior executives of regulatory entities in such way as prescribed for the purpose. The results of the comparative analysis formed the basis for determining the range of remuneration in respect of the CEO and also the range for the members of management and vice presidents, in comparison with the remuneration for the CEO. In this respect it was resolved that there will be no link between the salary of the board chairman and that of the CEO and that their salaries will be reviewed separately and independently.

According to the board resolution, once every three years the reasonableness of the model will be reviewed, including the need to make changes to it or with regard to the way in which it is implemented. In the event that significant changes occur in the economy, consideration will be given to the need to accelerate the model's review. In addition, the board of directors resolved to hold annual discussions in which, towards the end of each year, the targets, on the basis of which the bonuses to the senior executives will be distributed in the following year, will inter alia be set. Moreover, at the beginning of each year, the directors will hold discussions and pass resolutions in their discretion with regard to the salary increment payable to the senior executives further to the previous year, inter alia having regard to the results of the model, and also as regards the amount of the bonus to be given to each of the senior executives for the previous year.

(2) Defined contribution plans

Retirement plans

Some Company employees are members in a pension fund. According to the collective bargain agreement between the Company and employee representatives, the Company operates according to a general authorization granted to employers to make contributions to pension funds and insurance policies in lieu of making severance pay, pursuant to the Severance Pay Law-1963 as amended. Accordingly, the Company’s contributions fully replace the obligation of to pay retirement benefits to those employee and on the date of termination of employment of the employee, no further retirement benefits are paid by the Company to the employee, and the Company is exempt from paying retirement benefits to the employee or beneficiaries that survive the retiree according to Section 14 of the Severance Pay Law-1963 and the aforementioned general authorization. The total amount of expenses recognized in the income statement for the year ended December 31, 2011 with respect to defined contribution plans was NIS 1,193 thousand (2010 – NIS 1,090 thousand; 2009 – NIS 771 thousand).

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

C. Other long-term benefits:

Seniority grant

Company employees, by custom, receive seniority grants of NIS 6 thousand when they reach seniority of 15 years and for every five subsequent years.

D. Termination benefits:

Individual employment contracts signed with a group of executives entitle them, under certain conditions of work termination before the end of the period of the employment contract, to a grant of three-month pay. See note 2 (Q) regarding the accounting policies.

E. Short-term employee benefits:

(1) Composition

	December 31,	
	2011	**2010**
	NIS in thousands	
Wages, salaries and benefits (including benefits for bonus and termination benefits)	14,710	(*) 22,716
Unutilized vacation benefits	12,487	11,759
	27,197	34,475

(*) As stated in the financial statements as at 31st December 2010, short term employee benefits include provision for the remuneration of senior TASE executives in the sum of NIS 3.2 million, payable in 2011 in accordance with ratification by the board of directors. On 29th December 2011 the board of directors approved a multi-year remuneration model for senior executives (see note 13B (1)(l)) and also salary increments further to 2010 and bonuses for 2010 and 2011 in a total amount for both the said years. According to the said resolution, of the said remuneration (NIS 3.2 million), only bonuses total approx. NIS 2.3 million have been approved for 2010 and 2011. The amount that has not been approved for payment in respect of 2010 as aforesaid has been recorded as reduced wage expenses in 2011. In addition, salary increments further to 2010 were approved and paid starting in the January 2011 salaries.

(2) Additional information

Paid vacation days

Pursuant to the Annual Vacation Law-1951, Company employees are entitled to a number of paid vacation days for each year of employment. According to that law and an agreement between the Company and its employees, the number of vacation days an employee it eligible to per year is set according to the tenure of each employee.

An employee is permitted to accumulate unutilized vacation days. An employee retiring before utilizing the balance of accrued vacation days is entitled to payment for those vacation days.

Additionally, according to the agreement between the Company and its employees, employees are entitled under certain conditions to additional vacation days, and some of which can be accrued.

NOTE 14 - TAXES ON INCOME

A. Deferred tax balances:

(1) Composition and movement

	Timing differences			
	Financial assets at fair value through profit or loss	Property and equipment	Provisions (mostly for employee benefits)	Total
	NIS in thousands			
Balance at January 1, 2010	(3,013)	(2,234)	2,368	(2,879)
Movement during the period- Movement during the reporting period in profit or loss	(156)	(1,132)	888	(400)
Balance at December 31, 2010	(3,169)	(3,366)	3,256	(3,279)
Movement during the period- Movement during the reporting period in profit or loss	2,998	(1,475)	1,516	3,039
Balance at December 31, 2011	(171)	(4,841)	4,772	(240)

(2) Deferred taxes have been presented in the statement of financial position within non-current liabilities – liabilities for deferred taxes.

B. Timing differences on investments in investees without recognizing deferred tax liability:

	December 31,	
	2011	2010
	NIS in thousands	
Subsidiaries	123,640	115,896
Associates	507	367
	124,147	116,263

NOTE 14 - TAXES ON INCOME (CONT.)

C. Income tax expenses recognized in profit or loss:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Current taxes			
Current taxes	14,808	18,989	16,357
Prior years' tax income	(556)	(223)	(988)
Total current taxes	14,252	18,766	15,369
Deferred taxes			
Deferred tax expenses (income) derived from creation and reversal of temporary differences	(2,069)	400	2,879
Adjustment of deferred tax for change in tax rates	(626)	-	-
Previous year deferred taxes	(344)	-	-
	(3,039)	400	2,879
Total tax expenses	11,213	19,166	18,248

D. Effective tax:

The difference between the tax based on ordinary tax rates and the provision for income taxes is reconciled below:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Pre-tax income	57,623	84,351	83,300
Statutory tax rate	24%	25%	26%
Tax expenses at statutory tax rate	13,830	21,088	21,658
Increase (saving) in tax in respect of:			
Income liable to special tax rates (including for capital gain or loss)	(605)	(514)	(281)
Changes from differences between tax laws and accounting principles	(818)	(906)	-
Utilizing carryforward tax and benefits from prior years for which no deferred tax assets were recognized, net	-	(444)	(2,427)
Non-deductible expenses	332	165	286
Change in tax rates	(626)	-	-
Taxes for previous years	(900)	(223)	(988)
Total income taxes as presented in profit or loss	11,213	19,166	18,248

F. Additional information:

(1) Tax assessments

The Company has tax assessments that are considered final up to and including the 2007 tax year, and its subsidiaries – MAOF Clearing House Ltd. and TASE Clearing House Ltd. – have tax assessments that are considered final up to and including the 2007 tax year.

(2) On February 26, 2008, the Knesset (the Israeli parliament) passed into law the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Limitation of Effective Period), 2008 (hereafter- "the amendment"), according to which the provision of the Adjustments for Inflation Law no longer apply in and after the 2007 tax year, other than transitional provisions for preventing distortions in tax calculations.

NOTE 14 - TAXES ON INCOME (CONT.)

F. Additional information:

(2) (Cont.)
According to the amendment, taxable income will no longer be adjusted to a real basis from the 2008 tax year and thereafter. Additionally, depreciation charges on property and equipment and carryforward losses are no longer linked to the Israeli CPI, such that these amounts were adjusted through the end of the 2007 tax year, and their CPI-linkage was discontinued on that date and thereafter.

(3) On July 23, 2009, the Economic Efficiency Law (Legislation Amendments for the Application of the Economic Plan for 2009 and 2010), 2009 (hereinafter – "the Arrangements Law"). Under the Arrangements Law, the corporate tax rate at 26% and 25% in 2009 and 2010, respectively, were set to be reduced gradually from 2011 (24%) to 2016 (18%).

(4) On September 26, 2011, the recommendations of the Committee on Socioeconomic Change, headed by Prof. Manuel Trajtenberg, were published. Later, the Law for Change in the Tax Burden (Legislation Amendments), which is based on the tax chapter of the Trajtenberg Committee recommendations, was published on December 6, 2011 after it passed into law by the Knesset.

The key corporate tax changes in the new law are as follows:

(a) Elimination from 2012 of corporate tax and income tax rate reductions planned for the coming years
(b) Corporate tax rate was raised in 2012 to 25%
(c) Capital gains tax and betterment tax rates were raised to the rate specified in paragraph (b) above.

The balance of deferred taxes of the Group as of December 31, 2011 was revised based on the tax rate applicable in the 2012 tax year and thereafter (25%). Accordingly, on December 31, 2011, the Group recognized a NIS 626 thousand reduction in deferred tax liability against a tax income that was recognized in profit or loss in 2011.

NOTE 15 - CONTINGENT LIABILITIES

A. Indemnification of officers:

The TASE is obliged to indemnify officers of the TASE, TASE-CH. The MAOF-CH is obliged to indemnify its officers.

The total indemnity for all TASE officers, in the aggregate, based on all of the indemnities now or in future granted to them in accordance with the said obligation, in respect of one or more of the incidents detailed in the indemnity, shall not exceed an aggregate amount equivalent to NIS 20 million.

The total indemnity for all TASE officers, in the aggregate, based on all of the indemnities now or in future granted to them in accordance with the said obligation, in respect of one or more of the incidents detailed in the indemnity, shall not exceed an aggregate amount equivalent to NIS 50 million.

The total indemnity for all TASE officers, in the aggregate, based on all of the indemnities now or in future granted to them in accordance with the said obligation, in respect of one or more of the incidents detailed in the indemnity, shall not exceed an aggregate amount equivalent to NIS 75 million.

The indemnities will apply in respect of any liability or expense indemnifiable in accordance with the law.

The indemnity is subject to the provisions of Chapter III, Part 6 of the Companies Law.

NOTE 15 - CONTINGENT LIABILITIES (CONT.)

B. Exemption from liability granted to officers:

The TASE's General Meeting resolved, subject to the provisions of the Companies Law, to exempt directors and other officers of the TASE from liability to any damage caused or to be caused due to a breach of their duty of prudence towards the TASE.

The General Meeting of the TASE Clearing House resolved, subject to the provisions of the Companies Law, to exempt directors and other officers of the TASE from liability to any damage caused or to be caused due to a breach of their duty of prudence towards the TASE-CH.

The General Meeting of the MAOF Clearing House resolved, subject to the provisions of the Companies Law, to exempt directors and other officers of the TASE from liability to any damage caused or to be caused due to a breach of their duty of prudence towards the MAOF-CH.

C. On July 31, 2011, the TASE received a lawsuit in relation to the trading of shares of Orline Development and Investment Ltd (hereinafter: "Orline").

The lawsuit was filed by the trustee of the shareholders and creditors arrangement of Orline against the TASE, the TASE-CH and Mizrahi Tefahot Bank Nominee Co. Ltd (hereinafter "the Nominee Company") claiming NIS 19.34 million, as of the date of filing the lawsuit.

In the lawsuit, the plaintiff has inter alia pleaded that because of the negligence (alleged and denied) of the TASE, the TASE-CH and the Nominee Company, Orline's controlling shareholders were allegedly able to commit a complex fraud, resulting in listing and selling to the public approx. 9.8 million "fictitious" Orline shares, which exceeded the issued and paid-up capital that was authorized to be listed for trading.

The plaintiff seeks a total of NIS 19.34 million in damages to Orline shareholders, as of the date of filing the lawsuit, for the trading of these shares on TASE.

The company believes, based on the opinion of its legal counsel handling this lawsuit, that it is unable to assess at this preliminary stage of the legal proceedings the likelihood and risks of the lawsuit.

For the sake of good order, and beyond required disclosure, it is clarified here that the amount of claim is in any event covered by the insurance policy.

NOTE 16 - ADDITIONAL INFORMATION ON SERVICE REVENUE

A. Composition of revenue from trading and clearing fees:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Fees for trading and clearing securities, excluding derivatives	110,639	119,660	107,398
Fees for trading and clearing derivatives	48,291	38,683	34,262
	158,930	158,343	141,660

B. Major customers:

Customer A accounted to 19% of total revenue in 2011 and customer B accounted for 12% (2010: customer A - 18% and customer B - 13%).

NOTE 17 - ADDITIONAL DETAILS PERTAINING TO COST OF SALES

A. Employee benefits expenses:

Composition

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Salary (including retirement benefits)	109,726	109,853	99,155
Other long-term employee benefits	75	146	177
Defined contribution plan expenses	1,193	1,090	771
Defined benefit plan expenses	6,169	6,463	6,304
	(*)117,163	(*)117,552	106,407
Less – amounts capitalized as intangible assets (see note 11)	(12,260)	(10,419)	(9,042)
	104,903	107,133	97,365

(*) See comment in note 13 E (1) above.

B. Depreciation and amortization:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Depreciation of property and equipment (see note 10)	9,728	9,515	9,679
Amortization of intangible assets and goodwill (see note 11)	9,878	7,937	5,177
Impairment of intangible assets (see note 11)	1,000	-	-
	20,606	17,452	14,856

NOTE 18 - FINANCING INCOME, NET

Composition:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Financing expenses -			
Bank fees and expenses	(211)	(279)	(417)
Interest and CPI linkage expense on income taxes	(142)	-	(18)
Other financing expenses	(71)	(163)	-
	(424)	(442)	(435)
Financing income -			
Net gain (loss) from financial assets held for trading	(1,489)	18,377	28,589
Interest income on short-term bank deposits	241	171	329
Interest and CPI linkage income on income taxes	-	178	116
Interest income on employee loans	62	90	117
	(1,186)	18,816	29,151
	(1,610)	18,374	28,716

NOTE 19 - INTERESTED PARTIES AND RELATED PARTIES

A. Benefits to interested parties (*):

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Short-term benefits	2,545	4,397	3,781
Post-employment benefits	817	666	632
Salary and related expenses to Chairman and CEO (1)(2)	3,362	5,063	4,413
Number of beneficiary	2	2	2
Remuneration to non-executive directors	939	739	759
Number of beneficiary	6	7	6

(*) These amounts also represent compensation of key management personnel.

(1) For information about employment contracts with CEO and Chairman, see note 13 B (1) i- j.

(2) As stated in the financial statements as at 31st December 2010, the salary expenses in respect of the board chairman and CEO include provision for remuneration of approx. NIS 1 million, payable in 2011 in accordance with the board's ratification. On 29th December 2011 the board of directors approved a multi-year remuneration model for the TASE's senior executives (see note 13B (1)(l)) and also salary increments further to 2010 and bonuses for 2010 and 2011 in a total amount for both the said years.

According to the said resolution, of the said remuneration to the board chairman and CEO (approx. NIS 1 million), only total bonuses of approx. NIS 0.6 million have been approved for 2010 and 2011. The amount not approved for payment in respect of 2010 as aforesaid has been recorded as reduced salary expenses in 2011.

NOTE 19 - INTERESTED PARTIES AND RELATED PARTIES (CONT.)

B. Balances with interested and related parties:

(1) Balances with interested parties

	December 31 2011	December 31 2010
	NIS in thousands	
Within current assets (1)		
Cash and cash equivalents	17,779	22,829
Trade accounts receivable (2)	3,180	3,035
Other receivables - associates	11	31
Other receivables - subsidiary (3)	815	782
In current liabilities (1) (2)		
Accounts Payable - MAOF Clearing House members	2,638	2,536
Accounts Payable - TASE Clearing House members	55	50
Accounts Payable - subsidiary (3)	2	1

(1) For information about receivables and payables for open derivative positions see note 5. For information about assets and liabilities with respect to securities that were not transferred to the Tel Aviv Stock Exchange Clearing House on time see note 6.

(2) The balances are not linked to the CPI linked and bear no interest.

(3) Balances with subsidiaries are not reflected in the Company's consolidated statements.

(2) Liabilities for employee benefits to key management personnel

	December 31 2011	December 31 2010
	NIS in thousands	
	5,447	(*) 6,432

(*) See comment (2) in note 19 A above.

C. Transactions with interested and related parties:

(1) Transactions with interested parties

	Year ended December 31 2011	Year ended December 31 2010
	NIS in thousands	
Service revenue	185,918	178,894
Cost of revenue – premium for providing collateral to MAOF Risk Fund (*)	(11,535)	(10,755)
Financing income, net (**)	(263)	(438)

(*) According to a decision by MAOF-CH, the premium paid to members for the collateral deposited in the Risk Fund will be reduced by 50% beginning with the premium payable for 2012.

(**) The Company and the subsidiaries have financing income and expenses from transactions with interested parties, which are banks and other TASE members, carried out in the normal course of business. These amounts mainly arise from creating bank deposits, managing current accounts and managing securities portfolios and are included within "financing income, net".

NOTE 19 - INTERESTED PARTIES AND RELATED PARTIES (CONT.)

C. Transactions with interested and related parties: (Cont.)

(2) Transactions with related parties:

		Year ended December 31	
		2011	2010
		NIS in thousands	
(a)	**Transactions with associate**		
	Rent to SOL – associate	3,359	3,194
(b)	**Transactions with subsidiaries** (*)	28,203	20,779
	Participation in expenses by MAOF Clearing House		

(*) The TASE and both the TASE-CH and MAOF-CH have strong operational relations. This is reflected in practice as the TASE makes available to them all operational infrastructures it needs (computers, manpower, etc.).
Clearing revenue of TASE-CH from securities clearing fees is transferred to the TASE and recorded in its financial statements, while the revenue of MAOF-CH from derivatives trading and clearing fees is recorded in the financial statements of MAOF-CH. Accordingly, the MAOF-CH participates in the expenses of TASE proportionally to its revenue of total revenue of the Company and MAOF-CH, according to an agreement between the companies.
Transactions with subsidiaries are not reflected in the Company's consolidated statements.

D. Additional information on transactions with related parties:

(1) Resolutions of the TASE on granting a loan to the TASE-CH and the MAOF-CH:

In 2004, TASE approved the grant of a loan to the TASE-CH that may not exceed NIS 50 million for an event where the TASE-CH will need this in order to meet its liabilities. It was also resolved to authorize a committee of the Board of Directors to determine when the loan will be extended and also the amount of the loan, which may not exceed NIS 50 million. The loan will be made available at the same rate of interest as the Bank of Israel charges banks, unless otherwise is agreed between TASE and the TASE-CH. At the same time, in 2004 the TASE-CH authorized its CEO to apply to, and obtain from TASE a loan of up to NIS 50 million when it is needed.

Since the approvals that were granted in 2004 to the date of approving these financial statements, no such loan has been sought or granted.

In early 2009, TASE approved the grant of a loan to the MAOF-CH that may not exceed NIS 50 million and provided that the total loan to MAOF-CH and to TASE-CH together, as above, does not exceed NIS 50 million, for an event where the MAOF-CH will need this in order to meet its liabilities. It was also resolved to authorize a committee of the Board of Directors to determine the timing and amount of the loan, subject to the above limitations. The loan will be made available at the same rate of interest as the Bank of Israel charges banks, unless otherwise is agreed between TASE and the MAOF-CH. At the same time, in 2009 the MAOF-CH authorized its CEO to apply to, and obtain from TASE a loan of up to NIS 50 million when it is needed.

Since the approvals that were granted in early 2009 to the date of approving these financial statements, no such loan has been sought or granted.

TASE is under no obligation to provide these loans. When it is needed, granting those loans is according to the committee of the Board of Directors determination.

(2) For information about director remuneration and executive compensation and granting officers an exemption from liability see note 15.

NOTE 20 - LIENS

In March 2008, the TASE-CH opened a bank account (hereafter-“the account”) for the purposes of receiving loans, if and when the TASE-CH has an immediate need for cash to ensure clearing continuation in the event of a member default.

In April 2008, a first ranked fixed charge was registered on the securities deposited and/or to be deposited in the account or on proceeds from selling them and/or their earned gains.

In the event that the Company takes such a loan in the future, it will deposit the securities in the account in favor of the bank.

The TASE-CH has not made any use of the account since it was opened and no assets whatsoever have been deposited into it.