Europay (Eurocard) Israel Ltd.

Annual Report

For the year ended December 31, 2010

Report as of December 31, 2010

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Europay (Eurocard) Israel Ltd.

Board of Directors' Report

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MasterCard ישראכרט Isracard

Board of Directors' Report on the Financial Statements as of December 31, 2010

At the meeting of the Board of Directors held on February 28, 2011, it was resolved to approve and publish the audited financial statements of Europay (Eurocard) Israel Ltd. ("**the Company**" or "**Europay**") for the year 2010.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1972 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), and Bank Hapoalim was the controlling shareholder of the Company until July 2009 (as described below).

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

The Company, jointly with Isracard Ltd. (hereinafter: "**Isracard**"), the controlling shareholder of the Company as of July 2009, issues credit cards that combine the Isracard and MasterCard brands ("**MasterCard cards**"), as described below. The cards are issued by the Company for use abroad and by Isracard for use in Israel, under a license granted to the Company by MasterCard International Incorporated ("**the MasterCard Organization**"). In addition, the Company acquires transactions with merchants that have agreements with it which are executed in Israel in foreign currency, using MasterCard cards issued abroad by companies in the MasterCard Organization, and paid to the merchant in foreign currency. In accordance with an agreement between the companies, Isracard manages and operates issuance and acquiring activities of the aforesaid credit cards for the Company.

In July 2009, Isracard purchased the full holdings of Bank Hapoalim and of a subsidiary under its ownership in the Company: 98.2% of the issued and paid-up common share capital, and 100% of the issued and paid-up special share capital of the Company. The remaining issued and paid-up common share capital of the Company (1.8%) is held by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). The consideration paid by Isracard for the acquisition was determined in accordance with an assessment performed for the Company, in the amount of approximately NIS 182 million.

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

Developments in the Global Economy

The process of recovery from the crisis continued in 2010, although there have been setbacks as well as progress, and the consequences of the downturn are still a risk factor. Looking at the entire year, global growth was higher than earlier forecasts, with current estimates at about 5%. The main contribution to this growth came from the emerging economies, primarily China and India, which experienced growth rates of approximately 10%. Growth rates varied widely among the developed countries, with a high rate of 2.9% in the United States, 4.3% in Japan, and 3.6% in Germany, whereas some Eurozone countries (mainly Greece and Ireland) encountered a severe debt crisis and had to adopt strict austerity plans. The impressive growth in Japan and

Germany is largely attributed to strong growth in exports, due to the expanding demand in the emerging markets.

The signs of the crisis are still apparent in two areas: the fiscal situation and the labor market. Some countries have amassed large debts, either due to support for the financial sector during the crisis or due to the deep recession and stimulus plans. Different countries have coped with the debt problem in differing ways: in Europe, where the problem of debt was more severe, austerity plans were adopted, in some countries as a condition for access to money from the European fund established to help refinance debt. So far this fund has granted aid to Greece and Ireland only, but additional countries may choose to receive assistance from the fund in refinancing their debt. Note that despite the establishment of the fund and the support from the European Bank and the heads of the European Union for the countries in distress, insurance premiums for the debts of the crisis countries remain high. By contrast, in the United States the emphasis has been on continued stimulation of the economy and on the attempt to improve conditions in the labor market. Fiscal policy has remained expansive, tax breaks have been extended, and new plans have been launched to boost the economy.

As noted above, the labor market is the second area that has yet to recover. Unemployment rates in the United States and in the Eurozone were around 10% during 2010. Although the American economy began to create jobs in the second half of the year, the pace was insufficient to lower the unemployment rate for long.

The rapid growth of the global economy led to a sharp increase of approximately 37% in prices of agricultural commodities, as well as an increase of 16% in the price of oil. The effects of these increases raised inflation in the developing countries and have started to trickle into the developed countries as well. The mounting inflationary pressures globally led to increases in interest rates outside the Eurozone, the United States, and Japan.

Monetary policy in the United States and in the Eurozone remained expansive; the interest rates of the central banks remained unchanged and quantitative expansion continued.

The Israeli Economy

Economic Activity in Israel

The Israeli economy continued to display rapid growth, encompassing all sectors. According to estimates by the Central Bureau of Statistics, gross domestic product grew by 4.5% in 2010, while the business product grew by 5.3%. Industrial production increased by 7.8%; activity in the commerce sector and the food and hospitality services sector increased by 8.1%; the transportation, storage, and communications sectors showed 5.3% growth; and the business and financial services sectors posted 3.2% growth. Activity in the construction sector increased by 6.1%. The global tailwinds increased demand for exports, with an impressive expansion in exports to the Asian countries. The labor market continued to show surprisingly positive results, with the unemployment rate down to an average level of approximately 6.7%, and a 3.5% increase in the number of employed persons. Consumer confidence was influenced by the good condition of the labor market and by the gains in the capital market, and remained high throughout the year. These conditions, along with the expansive monetary policy, increased the demand for consumption and investments. Israel's strong fiscal position permitted a 3.7% increase in public consumption expenditures, which also contributed to increased demand and economic growth. Going into 2011, the economic data remain robust. The main risk factors stem from the global arena: while the developments in Egypt may not have a strong impact in the near term, it is difficult to estimate their geopolitical implications, and there may be an effect on the Israeli economy in the longer term. In addition, the developed countries are only beginning to cope with their sovereign debts, a process likely to have a moderating effect in the future.

Inflation and Exchange Rates

The consumer price index rose by 2.7% in 2010, within the boundaries of the target range, following three years of above-target inflation. The main contributing factor to the increase in the CPI over the last year was the housing item, which rose by 4.9%. The CBS survey of prices of homes (which is not factored into the CPI) showed a steep price increase again this year, at 17.3%. In order to temper the price increases in the real-estate market, the Bank of Israel applied regulatory measures designed to cool the mortgage market, especially in the area of variable-interest loans.

The shekel appreciated by 7.0% against the effective currency basket and by 6.0% against the US dollar in 2010. The current account of the balance of payments continued to show a large surplus in 2010, at approximately USD 7 billion. The Bank of Israel continued to intervene in trading in 2010, though at a lower rate than in 2009; the Bank of Israel purchased foreign currency in an amount of approximately USD 12 billion, and foreign-currency reserves reached a volume of USD 70.9 billion at the end of 2010. In January 2011, the Bank of Israel imposed a reporting requirement on the activity of foreign investors in the market for derivatives on foreign currency, short-term notes, and short-term government bonds. In addition, a 10% liquidity requirement was set for foreign investors' swap transactions. The Minister of Finance has announced a plan to tax foreigners' investments in short-term notes and in short-term government bonds; this proposal has not yet been legislated.

Fiscal and Monetary Policy

The budget deficit in 2010 amounted to 3.7% of GDP, below the deficit target of 5.5% established by the government. The main explanation for the low deficit is the surplus revenues of approximately NIS 11 billion, relative to the original planning. The ratio of government debt to GDP fell from 79.2% to 76.3%. The deficit target for 2011 is 3% of GDP.

During 2010, the Bank of Israel's interest rate rose by one percentage point, to 2.0% in December. The rate was raised to 2.25% in January 2011, and to 2.5% in February 2011. The interest-rate hikes were very moderate, in relation to both the growth rate of the economy and inflation. The Bank of Israel chose to apply macro-prudential measures in order to contend with the effect of the low interest rate on the demand for mortgages and on housing prices, and avoid accelerating the increase in the interest rate.

The Credit-Card Industry in Israel

As of the report date, the following companies operate in the area of credit-card issuance and acquiring in Israel: (1) the Company and Isracard, which issue and acquire Isracard and MasterCard credit cards; (2) Poalim Express Ltd., a sister company of Isracard ("**Poalim Express**"), which issues and acquires American Express credit cards; (3) Aminit Ltd., a sister company of Isracard ("**Aminit**"), which issues and acquires Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which, to the best of the Company's knowledge, issues and acquires Visa and

MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which, to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and acquires Diners credit cards.

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

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

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

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

Profit and Profitability

The Company's loss totaled less than NIS 0.5 million, compared with profit of NIS 1 million in 2009.

Net negative return of pretax operating loss on average equity reached 0.2%, compared with a positive return of 1.1% in 2009.

Net negative return on average equity reached 0.3%, compared with a positive return of 0.5% in 2009.

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2010 totaled NIS 183 million, similar to the end of 2009.

Shareholders' equity totaled NIS 183 million on December 31, 2010, similar to the end of 2009.

The ratio of shareholders' equity to the balance sheet reached 100% on December 31, 2010, similar to December 31, 2009.

The ratio of capital to risk-adjusted assets according to the Basel II directives reached 186.7% on December 31, 2010, compared with 172.6% on December 31, 2009.

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

The Board of Directors of the Company has defined the Company's risk appetite, and accordingly set the ratio of total capital to risk-adjusted assets at 12%.

Credit-Card Issuance

General

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

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

Two main types of cards are issued in the Israeli credit-card market: bank cards, issued to customers who maintain accounts with banks that have credit-card issuance arrangements with credit-card companies; and non-bank cards, issued by credit-card companies to customers of all banks, with an authorization to debit their account signed by the cardholders.

To the best of the Company's knowledge, as of the date of the report, most of the activity of credit-card companies in Israel is conducted in bank cards, under agreements with banks, as noted above. In addition, a trend has been apparent in recent years in which credit-card companies enter into ventures with large retail chains for the issuance of non-bank cards.

Bank cards issued by the Company and Isracard are distributed to owners of accounts at banks with which the Company and Isracard have agreements, including Bank Hapoalim, Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**"). After the balance-sheet date, the Company signed an agreement with Union Bank Ltd. for the distribution of credit cards to its customers.

As noted, Isracard administers and operates the credit-card issuance and acquiring activities on behalf of the Company (see "Agreement with Isracard" in Note 5D to the Financial Statements). See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) brand image; (3) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a risk-management system and credit controls; (9) the ability to recruit and retain customers through a supporting marketing system;

(10) agreements to establish customer clubs; and (11) operational efficiency and preservation of size advantage.

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

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

Products and Services

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

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

Contractual Engagements with Banking Corporations

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

Contractual engagement with Bank Yahav – In January 2009, the existing agreements of the Company and Isracard with Bank Yahav with regard to the various payments paid to Bank Yahav were updated, in a manner related to the volume of activity in cards issued by the Company and by Isracard to customers of Bank Yahav. These agreements were updated during 2010, with immaterial changes.

Customers – Cardholders

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

As of the date of the report, there are no cardholders (bank and/or non-bank) whose share of the volume of transactions executed in the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2010.

Marketing and Distribution

The Company's marketing and distribution activity in the Credit-Card Issuance Segment is conducted through Isracard (which administers and operates credit-card issuance activity on behalf of the Company), on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, the operation of a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the cessation of activity of a bank in Israel and competition.

Within the activity of customer clubs, the Company customarily contracts with various entities representing various customer groups in arrangements for the issuance of credit cards by the Company to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Hever cards for career military personnel and retirees, the new Life-Style Club cards, Ashmoret cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and the Institute of Certified Public Accountants in Israel, cards for retail chains, and more.

Contractual engagement with the Hever club – In January 2009, Hever Career Military Personnel and Retirees Ltd. and Hever Consumer Club Ltd. (jointly: the "**Hever Club**") entered into an agreement with the Company, Isracard, and Poalim Express for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). In March 2009, the Company, Isracard, and Poalim Express began marketing the card to the members of the Hever Club. The term of the Hever Agreement is six years from the aforesaid execution date, and may be extended in accordance with its terms. In addition, arrangements were formulated with regard to the termination of prior contractual engagements, including the required adjustments in the relationships between the relevant parties.

Pursuant to the Hever Agreement, among other matters, Isracard will extend credit for the Hever Credit Cards. The Hever Agreement also regularizes various matters pertaining to the cards, including arrangements for payment and account settlement between the parties, the process of issuing the new cards, operational matters, benefits and rights of Hever Club members, and marketing.

Competition

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

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

In order to cope with the competition in this sector, the Company takes the following main actions, through Isracard, which administers and operates the credit-card issuance activity on behalf of the Company: investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; reinforcement of status and image through advertising, benefits, and various offers for cardholders; marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and innovation – response to customers' needs by developing new products and services to supply the requirements of each customer segment and fulfill market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks.

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

Negative factors affecting the Company's competitive standing include, among others: technological improvements that create the possibility of development of alternative means of payment in areas such as cellular phones, which may cause a decline in the demand for credit-card issuance; and the entry of retail and other entities into the issuance field and/or expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

Credit-Card Acquiring

General

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

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

The Company has acquiring agreements with merchants in various industries, offering the merchants acquiring services for sales slips of transactions executed in foreign currency and paid to the merchant in foreign currency by tourists using MasterCard cards in Israel.

As noted, Isracard manages and operates the credit-card issuance and acquiring activities on behalf of the Company (see "Agreement with Isracard" in Note 5D to the Financial Statements).

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

As of June 2007, following the Cross-Acquiring Arrangement and the start of operation of a common local technical interface, all credit-card companies authorized to issue MasterCard and Visa cards and acquire transactions executed in the said cards are able to acquire MasterCard and Visa cards, each according to its authorizations. Merchants may switch acquirers of these brands at their discretion.

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

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

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

Products and Services

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

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

Segmentation of Income from Products and Services

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

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it. As of the date of the report, the Company did not derive revenues from any particular merchant constituting 10% or more of its total revenues in 2010.

Marketing and Sales

The Company's marketing and sales activity in the Credit-Card Acquiring Segment is conducted through Isracard (which manages and operates credit-card issuance and acquiring activities on behalf of the Company), based on the principle of focusing on merchants' needs, through a targeted sales and support system.

The key objectives of marketing activity in this area are: (1) to retain merchants as customers by providing marketing and operational services, including information regarding past and future credits of the merchant, advertising campaigns and unique marketing information, benefits, and programs at a high level of service; (2) to strengthen image; and (3) to recruit new merchants.

Competition

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

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

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

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

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

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

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

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

Seasonality

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

Intangible Assets

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

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

Human Capital

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

Service Providers

As noted, an arrangement is in place between the Company and Isracard under which Isracard manages and operates credit-card issuance and acquiring activity on behalf of the Company. For further details, see "Contractual Engagement Between the Company and Isracard," above.

Other Matters

1. The Company carries out daily backups of critical systems, saved at the backup site of Bank Hapoalim. During 2010, an immediate backup site for these systems was established at the backup site of Bank Hapoalim. The Company is prepared to set up an alternative infrastructure for the completion of backups for all systems, in an incremental process over the course of three months from the occurrence of a catastrophic event.

2. On June 10, 2010, the Company affirmed its recognition of the Histadrut New General Federation of Labor as the as the representative employees' union of the employees of the Company. The Company recently began a process of talks and negotiations regarding the labor relations at the Company.

Financing

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

Taxation

For details regarding the Company's taxation status, see Note 8 to the Financial Statements.

Restrictions and Supervision of the Company's Operations

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

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

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

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

Antitrust Issues

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

Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner. The Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until August 15, 2011. Among other matters, the aforesaid Arrangement includes the establishment of an interchange fee (a fee paid by the acquirer of a credit-card transaction to the issuer of the credit card).

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

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

Additional Regulation

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

2. A private bill was submitted to Knesset in May 2009 concerning the right of a credit-card holder to instruct the credit-card company to cease debits due to a flaw in the basic transaction between the cardholder and the merchant with which the transaction was executed. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation. If the bill results in legislation, it will have an impact on the Company, but at this stage the Company cannot estimate the extent of this impact.

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

4. In May 2009, a private bill was submitted to Knesset, according to which banking corporations that realize assets of borrowers due to the failure to repay a loan shall not be permitted to collect fees for such realization or for the early repayment of the loan. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation. The Company estimates that even if this bill results in legislation, it will not have a material impact on the Company.

5. A private bill was submitted to Knesset in February 2010 according to which credit-card companies must note extensive details of merchants in their reports to cardholders. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

6. A private bill was submitted to Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

7. In March 2010, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 432 concerning the transfer of activity and closure of accounts of customers, and an amendment to Proper Conduct of Banking Business No. 470, Charge Cards, concerning the transfer of ongoing transactions in charge cards. Proper Conduct of Banking Business Directive No. 432 primarily aims to facilitate customers' transition among banks, in order to allow increased competition in the banking system. Towards that end, the circular amends the existing directive on this matter, to regularize the transfer of standing

orders of customers switching from one bank to another, while also replacing their credit cards in the course of the transition. In particular, the amended directive aims to create the technological and legal infrastructure for the transfer of activity in ongoing transactions among different charge cards. This is achieved through the formation of a mechanism for the transfer of debits and the imposition of a duty upon the issuer of any credit card to perform the transfer of the activity for the customer, while communicating with the new issuer and with any merchants which were granted debiting authorizations by the customer. These directives will apply, with the necessary changes, to all transfers of activity in credit cards, including the transfer of activity in a card not issued by a bank, and the transfer of activity other than in the course of the closure of an account. Concurrently with the aforesaid amendment of Directive No. 432, appropriate amendments were made to Proper Conduct of Banking Business Directive No. 470 concerning charge cards, in order to apply the arrangement regarding the transfer of activity to credit-card companies, by including Directive No. 432 in the list of Proper Conduct of Banking Business Directives applicable to credit-card companies. The directives took effect as of September 1, 2010. At this stage, it is not possible to estimate the financial effect of this amendment.

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

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

10. In July 2010, the Fuel Industry Law (Promotion of Competition) was amended, with regard to the promotion of competition in the area of automatic refueling. The amendment authorizes the Minister of National Infrastructures to enact regulations with the aim of promoting competition. This amendment may have a bearing on the Company due to the fact that the Company issues refueling devices and cards that constitute "charge cards" pursuant to the Charge Cards Law, 1986. At this stage, the Company cannot estimate the implications of this amendment for the activity of the Company in the area of refueling devices/cards, if any.

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

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

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

14. In October 2010 and in December 2010, private bills were submitted to Knesset concerning discounting. At this stage, the Company cannot estimate whether these bills will result in legislation, and it cannot estimate the implications of the bills for the Company, if any.

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

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

17. In February 2011, a government bill was submitted to Knesset and passed in the first reading, concerning matters including discounting, the possibility of opening the credit-card acquiring market to competition for brands with market shares of 10% or more, and licensing of credit-card acquiring. At this stage, the Company cannot estimate whether this bill will

result in legislation. If the bill results in legislation, it will have a material adverse effect on the Company; however, at this stage the Company cannot estimate the extent of this effect.

Legal Proceedings and Pending Claims

1. Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low; therefore, no provision was made in respect of these claims.

2. In July 2010, the Company filed an appeal of its income-tax assessment for 2006. The dispute between the Company and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of the Company, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. The Company has appealed the tax assessment. In the opinion of its legal advisors, the probability of winning the appeal is high.

Contingent Liabilities

Indemnification of directors: The Company has undertaken a commitment to indemnify directors of the Company. The amount of the indemnification to be provided by the Company under this commitment to all directors of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its shareholders' equity, according to its financial statements as of June 30, 2004 (which amounted to NIS 190 million).

Objectives and Business Strategy

The Company's key objectives and strategies are the following:

1. Maintaining the level of revenues and profitability.

2. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.

3. Continued implementation of the club strategy.

4. Maintaining brand image.

5. Extending collaborations with merchants.

6. Ongoing improvement in quality of service to banks, clubs, merchants, and cardholders.

7. Maintaining a high technological level: innovation and support for product development, service, and improvements in efficiency.

8. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.

9. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

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

According to a decision of Management, each member of Management manages operational risk in the area of activity for which he or she is responsible. In addition, the Head of Finance and Administration is responsible for market and liquidity risks, and the Head of Credit and Financial Services is responsible for credit risks. In August 2009, the Company appointed a Head of Risk Management, with the status of a member of Management. In addition, the organizational structure of the Risk Management Department was updated in the format outlined by the Bank of Israel. Among other matters, the functions of the department include independent supervision of the manner of management of risks at the Company, monitoring of risks, reports to Management and to the Board of Directors, validation of risk-measurement systems, involvement in the establishment of risk-management policies, and examination of the effectiveness of the Company's risk-management processes. In order to manage and minimize risks, the Company makes use of supporting computerized systems, among other means.

Operational Risks

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

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

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

- Operational risks identified in new processes and products.

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

The Company does not actively create exposure to market risks. Ongoing management of these risks is therefore aimed at monitoring of the risks in order to ensure that they do not exceed the limits established for exposure in each area.

The Company's market risk management policy is currently undergoing adjustment to Proper Conduct of Banking Business Directives No. 201-211 (Basel II), and has been approved by the Board of Directors of the Company. This policy includes limits on financial exposures. The limits are aimed at reducing the damage that may be caused by changes in the various markets and in rates of interest, foreign currency, the CPI, and shares.

Market risks at the Company are managed by the Head of Finance and Administration. The formulation of risk management policy, exposure management, and reporting are under the responsibility of the Finance and Administration Division at the Company.

In order to implement the requirements of its market risk management policy, Isracard (which, as noted above, administers and operates the activity of the Company) purchased an asset and liability management system, and began using it routinely in the first quarter of 2010.

A. Currency exposure (including CPI)

Exposure to currencies and to the consumer price index is expressed as the loss that may occur as a result of the effect of changes in currency exchange rates (US dollar and euro) and in rates of the consumer price index on the difference between the value of assets and liabilities.

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

B. Liquidity risk

Liquidity is defined as the ability of a corporation to finance an increase in assets and settle its liabilities. The ability to withstand liquidity risk involves uncertainty with regard to the possibility of raising resources and/or realizing assets, unexpectedly and within a short timeframe, without incurring material losses.

The Company applies a comprehensive policy for the management of liquidity risk in Israeli and foreign currency, designed to support the achievement of business objectives while assessing and limiting losses that may arise from exposure to liquidity risks. This policy is attained by conducting ongoing monitoring of the liquidity position of the Company. The adjustment of liquidity risk policy to the Basel II requirements will be completed during the first half of 2011.

The liquidity position of the Company is examined by measuring the liquidity gap between total liquid assets and total liquid liabilities, primarily in the short term, and the existence of the means to bridge this gap.

C. Exposure to prices of securities

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

D. Derivative financial instruments

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

2. Policy Execution and Control of Market Risk Management

The Company's existing exposure to market risks is immaterial, and no significant changes are expected in the manner of management of risks as a result of these preparations.

Credit Risk

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

The Company's credit policy is approved each year by the Board of Directors of the Company.

The credit policy addresses principles for granting credit, the type of exposure in each segment of activity, quantitative and qualitative exposure limits, credit concentration, pricing and collateral, handling customers experiencing difficulties, and the hierarchy of credit authorizations.

The credit-management system relies on the delegation of credit authority at different levels. The overall responsibility for direct handling of customers rests with several authorized parties, leading to improved capability to manage credit risks and monitor and control the credit-granting process.

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

The Company also carries out routine control of internal and regulatory limits on the level of indebtedness of a single borrower and of a group of borrowers, in accordance with the requirements of Proper Conduct of Banking Business Directive 313 of the Bank of Israel.

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

Credit Control Unit

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

Capital Adequacy

The Company assesses its capital adequacy routinely. Starting with the financial statements as of December 31, 2009, the Company presents the standard approach to the calculation of capital adequacy, in accordance with Proper Conduct of Banking Business Directives No. 201-211 (Basel II).

The assessment is performed by a summation of capital and sorting of assets by risk rates and market-risk evaluations, with the addition of operational risk. Capital adequacy is determined by calculating the rate of capital out of total assets, weighted by the risk rate, as noted above, plus the market risk and the operational risk. For further details, see the section "Basel II," below. For details regarding reporting on capital adequacy, see Note 4B to the Financial Statements.

Basel II

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

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

The Basel II recommendations consist of three pillars:

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

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

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

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

- Adopt a target core capital ratio, as of December 31, 2010, of no less than 7.5%, after all of the required deductions from Tier I capital.
- Submit a work plan for compliance with this target to the Supervisor of Banks by the end of August 2010.

- Credit-card companies shall not distribute dividends, without advance approval by the Supervisor of Banks, if they do not meet the aforesaid target or if the dividend distribution would cause a failure to meet the target.

On May 20, 2010, the Supervisor of Banks issued a letter entitled "Examination of the Fairness of Reporting to the Supervisor on Capital Adequacy." According to the letter, banking corporations and credit-card companies are required to contract with their external auditors, in a letter of contractual engagement, for the performance of an examination of the fairness of the reporting to the Supervisor on capital adequacy as of December 31, 2010, and to submit the findings of this audit to the Supervisor of Banks by May 1, 2011. A draft letter on this matter has been reviewed by the parties.

Risk Appetite

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

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

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

Capital Adequacy Target

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

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

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

The Company's target ratio of total capital to risk-adjusted assets is 12%.

Capital Management

The objective of capital management is to optimize return on equity while complying with the detailed risk-appetite definitions established by the Board of Directors of the Company, subject to regulatory directives. Accordingly, effective capital management ensures:

- Efficient allocation of capital during the ordinary course of business of the Company.
- A capital base serving as protection against unexpected risks to which the Company is exposed, supporting business strategy, and allowing compliance at all times with the minimum regulatory capital requirement (refers to the mix and amount of capital backing the strategy and risks of the Company).
- Optimization of capital ratios at all times – for this purpose, the Company takes into account not only the current status of capital but also future developments in the capital base and capital requirements.

Guiding Principles in Capital Management

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

The following table lists the disclosure requirements according to Pillar III:

Table number	Subject	Qualitative disclosure	Quantitative disclosure
		Page number	
1	Applicability of implementation	35	-
2	Structure of capital	35	-
3	Capital adequacy	36	34
4	Credit risk – general disclosure requirements	37	-
5	Credit risk	-	37
6	Credit risk – disclosure for portfolios treated using IRB approaches (not relevant to the Company)	-	-
7	Credit risk mitigation (not relevant to the Company)	-	-
8	General disclosure regarding exposures related to credit risk of counterparties (not relevant to the Company)	-	-
9	Securitization (not relevant to the Company)	-	-
10	Disclosure by companies using the standard approach	45	-
11	Disclosure by companies using the internal models approach with respect to market risk in the trading book (not relevant to the Company)	-	-
12	Operational risk	47	47
13	Disclosure of positions in shares in the banking book (not relevant to the Company)	-	-
14	Interest-rate risk in the banking book (not relevant to the Company)	-	-

Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2010	December 31, 2009
	NIS millions	
Tier I capital	183	183
Total overall capital	**183**	**183**

2. Weighted balances of risk-adjusted assets

	December 31, 2010		December 31, 2009	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	91	8	91	8
Operational risk	7	1	15	1
Total weighted balances of risk-adjusted assets	**98**	**9**	**106**	**9**

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	186.7	172.6
Ratio of Tier I capital to risk-adjusted assets	186.7	172.6
Ratio of total capital to risk-adjusted assets	186.7	172.6
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

The ratio of capital to risk-adjusted assets in accordance with the Basel II directives was 186.7%, as compared to 172.6% on December 31, 2009.

The capital base as of December 31, 2010, in accordance with the Basel II directives, amounted to a total of approximately NIS 183 million, similar to December 31, 2009.

The weighted total of risk-adjusted assets as of December 31, 2010 under the Basel II directives amounted to approximately NIS 98 million, compared with NIS 106 million in 2009, a decrease of approximately NIS 8 million.

The decrease in the balance of risk-weighted assets resulted from a decrease in risk-weighted assets in respect of operating risk in the amount of approximately NIS 8 million.

Applicability of Implementation

The requirements of Basel II apply to the Company. In addition, the Company is consolidated by Isracard, which is also subject to the Basel II requirements.

Structure of Regulatory Capital

Pursuant to the Basel II directives, credit-card companies must maintain a ratio of capital to risk-adjusted assets of no less than 9% of the weighted total of risk-adjusted assets in their balance-sheet assets and off-balance-sheet items.

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

Tier I capital includes shareholders' equity.

Core capital shall not fall below 75%.

Limits on the Capital Mix

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

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

Structure of Capital

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

	December 31, 2010	December 31, 2009
	NIS millions	
Tier I capital		
Paid-up common share capital	1	1
Retained earnings	182	182
Total core capital	183	183
Total Tier I capital	183	183
Total eligible capital	**183**	**183**

Capital Adequacy

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

The Company performs an internal process of assessment of its capital adequacy, within which a multi-year plan has been created for attainment of the capital-adequacy objectives. This plan takes into consideration the Company's present and future capital needs, according to its strategic plans, as compared to its available sources of capital. The plan addresses all present and future risk-adjusted assets of the Company, according to the required allocation under Basel II, with reference to the capital-adequacy targets and risk appetite. The Company also intends to examine these objectives against various stress tests, in order to ensure its compliance with the capital-adequacy limits even under extreme conditions.

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2010		December 31, 2009	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	91	8	91	8
Other assets	-	-	-	-
Total credit risk	91	8	91	8
Operational risk	7	1	15	1
Total weighted balances of risk-adjusted assets / capital requirements	**98**	**9**	**106**	**9**

	December 31, 2010	December 31, 2009
Total capital ratio and Tier I capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	183	183
Ratio of core capital to risk-adjusted assets	186.7%	172.6%
Ratio of Tier I capital to risk-adjusted assets	186.7%	172.6%
Ratio of total capital to risk-adjusted assets	186.7%	172.6%
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

Credit Risk – General Disclosure Requirements

In the course of the Company's operations in granting credit to customers, doubtful debts and bad debts arise from time to time, with respect to the credit under the responsibility of the Company.

Manner of Establishing the Provision for Doubtful Debts

The Company performs a specific provision for doubtful debts.

Specific Provision

The Company records provisions for doubtful debts in respect of debts of customers which are under the responsibility of the Company, and in respect of debts of merchants. The Company performs extensive efforts to collect debts. The Company restructures debts and redivides debts into installments, as necessary. With regard to arrears of more than ninety days, provisions for doubtful debts are recorded, according to the Company's evaluation of the probability of collection, at the level of the individual debt (in material amounts). The evaluation of the probability of collection is performed following a detailed data analysis with regard to the debt, while communicating with the customer. Concurrently, the Company continues its collection efforts, including through legal process and other means.

Bad Debts

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

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

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

Credit Risk Management

Credit risk is one of the risks managed, monitored, and controlled by the Company, as a necessary characteristic of its activity as a company engaged in granting credit. The Company is currently improving its credit risk management policy and corporate governance, in accordance with Pillar II of the Basel II Accord. The credit risk management process aids the Company in viewing risk according to the component product mix.

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

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

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

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

- The Company acts in accordance with the guidelines of the Bank of Israel in Directive No. 313 on single borrowers and borrower groups. Working according to this directive reduces borrower concentration risk.

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

Principles of Credit Concentration Risk Management

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

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

Assigning Risk Ratings to Customers Based on Statistical Models

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

- Models are divided as follows:

  1. AS (application scoring) model for new customers;

  2. BS (behavior scoring) model – a behavioral model for customers of the Company;

  3. SME (small-medium enterprise) model – a model for business clients.

- The risk rating models are used to support decisions regarding the type of credit, volume of credit, and interest rate established for the customer/merchant.

- Routine monitoring and controls are applied with regard to the development of risk ratings in the credit portfolio.

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

Establishing the Hierarchy of Credit Granting Authority

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

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

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

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

Exposure to Financial Institutions

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

- Credit-card companies in Israel and globally – Cross-acquiring activity occurs between the Company and credit-card companies in Israel. In addition, exposure to global credit-card companies.

- Banks in Israel – Credit-card activity under the responsibility of banks is conducted with customers' accounts at Israeli banks. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.

- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel; deposits of foreign currency with financial institutions overseas. The Company's exposure is immaterial.

- The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results from:

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

- Deposits with banks – deposits performed by the Company with banks create an automatic exposure to such banks.

Independent Supervision

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

- Checking compliance with credit policy directives and with the instructions of the Bank of Israel.

- Active involvement in establishing credit policy, including credit limits. Control over the implementation of credit policy.

- Identifying new risks and emerging risks.

- Reporting the results of the monitoring to senior management and to the Board of Directors.
- Monitoring risk-assessment models.

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

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

Credit Exposures

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

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

	December 31, 2010		December 31, 2009	
	Balance-sheet credit risk		Balance-sheet credit risk	
Type of exposure	Credit	Total balance-sheet credit risk	Credit	Total balance-sheet credit risk
	NIS millions			
Banking corporations	182	182	181	181
Other assets	1	1	2	2
Total exposures	**183**	**183**	**183**	**183**

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

	December 31, 2010		December 31, 2009	
	Balance-sheet credit risk		Balance-sheet credit risk	
Type of exposure	Credit	Total balance-sheet credit risk	Credit	Total balance-sheet credit risk
	NIS millions			
Banking corporations	182	182	181	181
Other assets	1	1	2	2
Total exposures	**183**	**183**	**183**	**183**

Credit Risk Mitigation (CRM)

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

Credit risk weighting

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

Before and after credit-risk mitigation

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

		December 31, 2009		
	Rating	**0%**	**50%**	**Credit exposure**
Banking corporations	Unrated	-	181	181
Other assets	Unrated	2	-	2
Total		**2**	**181**	**183**

Credit Risk Weighting

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

Credit rating agencies used:

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

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

General Disclosure Regarding Exposures Related to Counterparty Credit Risk – OTC Derivatives

The Company examines the use of derivatives with banks, as part of its market and liquidity risk management policy, rather than for investment or other purposes.

Hedging Interest-Rate Exposures

The financial activity of the Company is characterized by a parallel between the maturity dates of assets and those of short-term liabilities; i.e. short-term routine activity in credit cards with customers versus short-term liabilities to merchants. However, the Company also extends credit for the medium term, some at fixed interest rates (usually up to two or three years), but does not take deposits. The activity in credit at fixed interest rates creates a gap in durations and generates exposure to changes in interest rates during the routine course of the Company's operations. This exposure is also present in investments in government bonds.

Hedging Foreign Currency Exposures

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day. The Company occasionally uses forward contracts to hedge currency risk in long-term purchasing transactions.

Disclosure by Companies Using the Standard Approach

General

The Company accounts for all of its assets and liabilities using the standard measurement approach, as defined in the Basel II directives. The Company does not have a portfolio for trading, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

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

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

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

- **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an internal investment committee headed by the Head of Market Risks; the Chief Risk Controller; and the Audit Committee.

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

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

- **Tools and technologies** – Applications exist to support risk assessment, risk management, reporting, monitoring, and planning.

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager

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

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

Chief Risk Officer

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risks are measured in the following reports:

ALM reports – Fair value, duration, internal rate of return, interest-rate gap, cash flows.

Stress reports – Tests of the sensitivity of the portfolio to changes in risk factors.

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital Requirements in Respect of Operational Risk

	Capital requirement	
	December 31, 2010	**December 31, 2009**
	In NIS millions	
Operational risk	1	1

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

- To manage operational risks as an integral part of the working processes of the Company, including the introduction of new products and processes.
- To maintain effective controls of risks according to risk ratings.

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

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

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

- Full mapping of all operational processes at the Company.
- Classification of the processes into groups, according to the Basel II classification methodology.
- Mapping of all controls relevant to each risk, including residual risk, and additional recommended controls if necessary.
- Rating of risk levels in each process on a scale of the level of damage / expected frequency.
- Implementation of a multi-year action plan to reduce material risks and increase controls where necessary.

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

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

All events of damage at the Company are collected into a single database. All material events (the materiality threshold as of December 2010 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

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

Prevention of Money Laundering and Terrorism Financing

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

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), - 2001.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive has recently been updated. Also see the section “Additional Regulation,” paragraph 7).

The Company has defined officers responsible for the implementation of these laws. The Company has expanded its activity in the area of control with regard to customers and merchants defined as high risk. The Company routinely operates controls to ensure that it has all of the information and documents required by law, and acts to eliminate any localized gaps discovered. The training system has been expanded and improved, and all employees, without exception, are required to maintain current knowledge in this area through computerized tutorials. In addition, specific training sessions were held for the various departments concerned with the prohibition of money laundering and terrorism financing. The Company's procedures have been updated and expanded in order to fully cover all topics in accordance with legal requirements. Routine reports were submitted to the Israel Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the directives of the Order) and unusual transactions. In addition, monthly reports were submitted to the Bank of Israel.

Significant Accounting Policies

The financial statements of the Company are prepared in accordance with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks, the main points of which are described in Note 2 to the Financial Statements, in the section concerning the implementation of accounting principles. When preparing the financial statements, the Management of the Company uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Company. Some of these estimates and evaluations involve uncertainty, and may be affected by possible future changes.

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

No changes occurred during the reported period in the Company's accounting policies on critical matters.

Discussion of Risk Factors

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

Risk factor		Brief description	Effect
1.	Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	High
1.1.	Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Medium
1.2.	Risk in respect of sectorial concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and control of compliance with these limits is carried out routinely.	Low
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's income and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in income.	Low

Risk factor		Brief description	Effect
3.	Liquidity risk	Present or future risk to the Company's income and capital arising from an inability to supply its liquidity needs. In exceptional demand and supply situations in the financial markets, unplanned costs may be incurred in raising resources. The Company has taken action to diversify its liquidity sources.	Low
4.	Operational risk	Present or future risk to the Company's income and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and risk to reputation. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Low
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low
7.	Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected in the loss of customers or reduction of customers' activity volumes, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium

Risk factor		Brief description	Effect
8.	Regulation and legislation	Present or future risk to the Company's income and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, income, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	High
9.	Dependence on Isracard	The Company is materially dependent on Isracard, which manages and operates credit-card issuance and acquiring activity on behalf of the Company, in accordance with the arrangement between the parties. The Company does not possess systems for the operation of credit-card issuance and acquiring activities. Termination of the contractual engagement with Isracard would require the Company to contract with another entity for the provision of services, or to perform material monetary investments in the acquisition and development of operational systems.	Medium
10.	Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Medium
11.	Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, damage infrastructures, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Medium

Risk factor		Brief description	Effect
12.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium
13.	Cessation of operation of an international credit-card organization	The cessation of operation of the MasterCard organization may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of the Company (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium
14.	Dependence on a material supplier	The Company, like the other credit-card companies in Israel, is materially dependent on ABS, which operates a system for the collection of transactions executed in credit cards in Israel for these companies, operates the local interface, and operates the Inter-Bank Settlement Center (Masav).	Medium

Disclosure Regarding the Internal Auditor

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

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

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

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

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

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2010 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairman of the Board of Directors and the CEO of the Company. The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

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

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

Auditing resources – Approximately 20 audit days were invested directly at the Company in 2010. In addition, activities received by the Company via outsourcing from its parent company Isracard Ltd. are audited as part of internal auditing at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, based on a risk survey.

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

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

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

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

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

Summary of Internal Audit activity – A summary of audit activities for 2009 was submitted to the Audit Committee on June 20, 2010, and discussed by the committee on June 23, 2010. A summary of audit activities for 2010 is expected to be submitted to the Audit Committee during the first quarter of 2011.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

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

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

The Board of Directors

In 2010, the Board of Directors of the Company continued to set forth the Company’s policy and the guiding principles for its activity and establish directives on various matters.

Twelve meetings of the Board of Directors, fifteen meetings of the Audit Committee, and eight meetings of the IT Committee were held in 2010.

Directors with Accounting and Financial Expertise

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

Members of the Board

Irit Izakson

Acting Chairperson of the Company as of the beginning of October 2008. Chairperson of the Credit Committee of the Board of Directors of the Company as of July 28, 2010.

Also serves as Acting Chairperson of Isracard, Aminit, and Poalim Express.

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

Chairperson of the following Board Committees at Bank Hapoalim: the Balance Sheet Committee and the Risk Management and Control and Basel II Implementation Committee.

Member of the following Board Committees at Bank Hapoalim: the Credit Committee, the Expense Control and Streamlining Committee, and the New Products Committee.

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

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

In early 2011, appointed to the Executive Board of the Association of Public Companies.

In the last five years, or during part of that period, served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., Koor Industries Ltd., Mehadrin Ltd., Meshulem Levinstein Ltd., Eurocom Communications Ltd., and Nisko Industries Ltd. (external director), and as a member of the Public Council of the Drug Fund established by the Israel Corp. Ltd. Group (which has ceased operations); however, she no longer serves at these companies.

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

Director with accounting and financial expertise.

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

Avi Idelson

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

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

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

Member of the Audit Committee of the Board of Directors of the Company as of February 25, 2010; Chairman of the Committee as of February 28, 2011.

Member of the following committees of the Board of Directors of the Company: IT Committee, Credit Committee (as of July 28, 2010).

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

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

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

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

Courses in banking at Bank Hapoalim.

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

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

Lilach Asher-Topilsky

Member of the Board of Management of Bank Hapoalim B.M. and Head of Retail Banking at the Bank as of October 1, 2009.

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

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

Also serves as a director at Isracard.

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

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

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

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

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

Director with accounting and financial expertise.

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

Yair Ben-David

Attorney, owner of a legal practice.

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

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

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

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

L.L.B., Tel Aviv University.

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

Ilan Grinboim

CEO of Eurocom Cellular Communications Ltd. as of 2004.

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

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

Also a member of the board of directors of the following companies: Dash Apax Holdings Ltd., Isracard Ltd., and Aminit Ltd.

M.B.A., Tel Aviv University; B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Jacky Wakim

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

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

Also serves as a member of the following committees of the Board of Directors of the Company: Audit Committee, IT Committee.

Head of the Finance Administration of the City of Haifa.

Also a member of the board of directors of the following companies: Mifal Hapayis, Local Government Economic Services Insurance Agency (1992) Ltd., Local Government Economic Services Ltd., Isracard, Poalim Express, and Aminit.

Also a member of the audit committees of the boards of directors of the following companies: Isracard, Poalim Express, and Aminit.

In the last five years or during part of that period, served as a director at MTM – Scientific Industries Center Haifa Ltd.; however, he no longer serves there.

M.B.A., Thames Valley University; B.A. in Economics and Accounting, Haifa University; L.L.B., Ono Academic College.

C.P.A.

Director with accounting and financial expertise.

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

Ron Weksler

Head of Southern Region at Bank Hapoalim B.M.

Member of the Board of Directors of the Company as of March 1, 2004.

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

Also serves as a member of the board of directors and of the audit committee of the board of directors at Isracard.

As of 2002, served in various positions at Bank Hapoalim B.M.

In the last five years or during part of that period, served as a director at MyBills Ltd.; however, he no longer serves there.

Doctor of philosophy and Ph.D. in Public Administration, Bar Ilan University; M.B.A., Bar Ilan University; L.L.B., Tel Aviv University; B.A. in Accounting, Tel Aviv University.

Director with accounting and financial expertise.

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

Eldad Kahana

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

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

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

Also a member of the board of directors and audit committees of Isracard Ltd. and Aminit Ltd.

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

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

Shmuel Lachman

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

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

Member of the Audit Committee of the Board of Directors of the Company as of November 19, 2009; Chairman of the IT Committee of the Board of Directors of the Company.

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Isracard, Aminit, Poalim Express, S.I.R.N. (2002) of the Association for the Wellbeing of Israel's Soldiers Ltd., Shiral 10 Ltd., and the Computer Direct Group Ltd.

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

Also a member of the audit committees of the board of directors of the following companies: Isracard, Poalim Express, and Aminit.

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

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

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

Director with accounting and financial expertise.

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

David Luzon

Member of the Board of Management of Bank Hapoalim B.M. as of April 1, 2000.

Head of Information Technology and Operations at Bank Hapoalim B.M.

On August 8, 2010, D. Luzon notified the Board of Management of Bank Hapoalim of his intention to resign from the Bank at the end of the term of his current contract with the Bank, at the end of March 2011.

Member of the Board of Directors of the Company as of July 19, 2000.

Member of the IT Committee of the Board of Directors of the Company as of November 19, 2009.

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

Member of the Computerization Committee of the TASE.

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

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

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

Ran Oz

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

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

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

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

In the last five years or during part of that period, served in the following positions: CFO of Intouch Insurance BV; Deputy CEO and CFO at Bezeq the Israel Telecommunications Corp. Ltd.; CFO and Corporate VP at NICE Systems Ltd.; however, he no longer serves at these companies.

Also served, in the last five years or during part of that period, on the board of directors of the following companies: Bezeq International, Pelephone Communications, DBS Satellite Services (1998) Ltd., Bezeq

Zahav Holdings Ltd., Walla, NICE Systems GmbH, NICE CTI Systems UK Ltd., NICE Systems Canada Ltd., NICE Technologies Ltd., IEX Corp BV, FAST Video Security (UK) Ltd., NICE Switzerland AG, NICE Systems Asset Management LLC, NICE APAC Ltd., NICE Interactive Solutions India Private Ltd., NICE Systems (Singapore) PTE Ltd., NICE Systems Australia PTY, NICEeye Ltd., NICE Systems Inc., IEX Corp., and NICE Systems Latin America Inc.; however, he no longer serves at these companies.

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

C.P.A.

Director with accounting and financial expertise.

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

Moshe Amit

Member of the boards of directors of various companies.

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

Member of the Credit Committee of the Board of Directors of the Company as of July 28, 2010.

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

Also a member of the board of directors of the following companies: Isracard; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets – Investment Bank Ltd.; Tempo Beer Industries Ltd.; Mega Retail Ltd. (formerly Blue Square Chain Properties & Investments Ltd.); AFI Development Plc, Cyprus.

Until December 2003, member of the Board of Management of Bank Hapoalim.

In the last five years or during part of that period, served on the board of directors of the following companies: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd.; and as chairman of the board of Continental Bank Ltd.; however, he no longer serves at these companies.

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

Director with accounting and financial expertise.

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

Uriel Paz Served as a member of the Board of Directors of the Company from November 18, 2003 to April 1, 2010.

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

Senior Members of Management

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

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

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

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

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

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

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

Eli Burg Member of the Management of the Company as of March 1998.

Head of Trade and Sales.

Member of the Board of Directors of Tzameret Mimunim Ltd.

B.A. in Economics and Political Science, Bar Ilan University.

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

Yigal Bareket	Member of the Management of the Company as of September 1, 2010. Head of Marketing. In the last five years or during part of that period, served as head of the private marketing division and the products and services division at Bezeq, and as head of marketing in the Internet sector at 013 Barak. B.A. in Communications and Management, College of Management. To the best of the knowledge of the Company and of Mr. Y. Bareket, he is not a family member of another interested party of the corporation.
Ronen Zaretsky	Member of the Management of the Company as of December 18, 2005. Head of Information Technology and Operations. Until the end of 2010, served as a member of management of the Project Management Institute P.M.I. Israel (R.A.). Previously served as commander of the IDF Manpower Computing Center and held the rank of Colonel. M.A. in Public Administration, Bar Ilan University; B.A. in Computer Science, Economics, and Criminology, Bar Ilan University. IDF Center of Computing and Information Systems (Mamram), Computer School Track: programming, systems analysis, project management, technician, practical engineer. To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party of the corporation.
David Cohen	Member of the Management of the Company as of March 1998. Head of Customer Relations. To the best of the knowledge of the Company and of Mr. D. Cohen, he is not a family member of another interested party of the corporation.
Alberto Langa	Member of the Management of the Company as of August 1976. Head of Security and Risk Management. Ceased to serve in the position of Member of Management and Head of Security and Risk Management in February 2011. Member of the board of directors of the following companies: Global Factoring Ltd., Tzameret Mimunim Ltd.

Executive Development Program, Comptroller Section, Tel Aviv University, Faculty of Management, L. Recanati Graduate School of Business Administration.

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

Amir Kushilevitz-Ilan

Member of the Management of the Company as of February 2011.

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

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

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

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

Pinhas Shalit

Member of the Management of the Company as of March 1991.

Head of Finance and Administration.

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

At his request, will end his service at the end of the first quarter of 2011.

M.A. in Economics and Business Administration (specialized in financing), Bar Ilan University.

C.P.A.

B.A. in Economics and Accounting, Bar Ilan University.

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

Ami Alpan

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

Head of Strategic Planning.

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

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

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

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

Ron Cohen	Member of the Management of the Company as of February 27, 2007. Head of Credit and Financial Services. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Iguach Ltd. In the last five years or during part of that period, served as Head of Customer Relations at the Corporate Area, Bank Hapoalim B.M. M.A. in Business Administration, Marketing, and Financing, Hebrew University of Jerusalem; B.A. in Economics and International Relations, Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party of the corporation.
Ayala Tidhar	Member of the Management of the Company as of February 27, 2007. Head of Advertising, Head of Local Cards Unit. At her request, will end her service at the end of the first quarter of 2011. B.A. in Hebrew Language and Literature, Bar Ilan University. Diploma in Interior Decorating, Technion. Arieli School of Marketing and Advertising. To the best of the knowledge of the Company and of Ms. A. Tidhar, she is not a family member of another interested party of the corporation.
Moshe Livnat	Served as a Member of the Management of the Company from March 1998 to September 1, 2010.

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

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

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Control of Financial Reporting

During the fourth quarter ended on December 31, 2010, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of financial reporting.

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

Tel Aviv, February 28, 2011

Europay (Eurocard) Israel Ltd.

Management's Review

For the Year Ended December 31, 2010

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Balance Sheet – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2010	**2009**	**2008**	**2007**	**2006**
Assets					
Securities	-	-	-	-	*-
Other assets	183	183	182	217	251
Total assets	**183**	**183**	**182**	**217**	**251**
Liabilities					
Expenses payable	-	-	-	39	12
Total liabilities	**-**	**-**	**-**	**39**	**12**
Shareholders' equity	183	183	182	178	239
Total liabilities and capital	**183**	**183**	**182**	**217**	**251**

* Amount lower than NIS 0.5 million.

Statement of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2010	**2009**	**2008**	**2007**	**2006**
Net operating (expenses) income, under the agreement with Isracard Ltd.	(4)	(2)	(2)	*-	1
Profit from financing activity	4	4	8	11	10
Operating (loss) profit before taxes	**(*-)**	**2**	**6**	**11**	**11**
Provision for taxes on operating profit	*-	1	2	1	3
Net operating (loss) profit	(*-)	1	4	10	8
Profit from extraordinary transactions after taxes	-	-	-	99	28
Net (loss) profit	**(*-)**	**1**	**4**	**109**	**36**
Net (loss) profit per common share (in NIS)					
Net operating (loss) profit	(*-)	2	9	24	19
Profit from extraordinary transactions after taxes	-	-	-	235	67
Total	**-**	**2**	**9**	**259**	**86**

* Amount lower than NIS 0.5 million.

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

Addendum 3

Reported amounts

In NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	183	182	182	183
Total assets	**183**	**182**	**182**	**183**
Shareholders' equity				
Shareholders' equity	183	182	182	183
Total liabilities and capital	**183**	**182**	**182**	**183**

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

Addendum 3 (cont.)

Reported amounts

In NIS millions

	2009			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	183	183	183	182
Total assets	**183**	**183**	**183**	**182**
Shareholders' equity				
Shareholders' equity	183	183	183	182
Total liabilities and capital	**183**	**183**	**183**	**182**

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

Addendum 4

Reported amounts

In NIS millions

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

* Amount lower than NIS 0.5 million.

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	2009			
	Q4	**Q3**	**Q2**	**Q1**
Net operating income (expenses), under the agreement with Isracard Ltd.	*-	(1)	(1)	*-
Profit from financing activity	*-	1	3	*-
Operating profit before taxes	*-	*-	2	*-
Provision for taxes on operating profit	*-	*-	1	*-
Net operating profit	*-	*-	1	*-
Net profit	***-**	***-**	**1**	***-**
Net profit per common share (in NIS)				
Net operating profit	-	-	2	-
Profit from extraordinary transactions after taxes	-	-	-	-
Total	**-**	**-**	**2**	**-**

* Amount lower than NIS 0.5 million.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Ltd. (hereinafter: the "**Company**") for 2010 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

Dov Kotler

Tel Aviv, February 28, 2011

Chief Executive Officer

Certification

I, Sigal Barmac, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Ltd. (hereinafter: the "**Company**") for 2010 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

	Sigal Barmac
Tel Aviv, February 28, 2011	Manager of Finance and Accounting Department, Chief Accountant

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

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

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

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control of financial reporting as of December 31, 2010, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as of December 31, 2010, the Company's internal control of financial reporting is effective.

The effectiveness of the Company's internal control of financial reporting as of December 31, 2010 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 89. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as of December 31, 2010.

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

Tel Aviv, February 28, 2011

Europay (Eurocard) Israel Ltd.

Financial Statements

For the year ended December 31, 2010

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BDO ZIV HAFT

KPMG

Somekh Chaikin

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

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

We have audited the internal control over financial reporting of Europay (Eurocard) Israel Ltd. (hereinafter: “the Company”) as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: “COSO”). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by guidelines of the Supervisor of Banks, the accompanying financial statements of the Company as of December 31, 2010 and 2009, and for each of the years in the three-year period ended on December 31, 2010. Our report dated February 28, 2011, expressed an unqualified opinion on the said financial statements.

Ziv Haft

Certified Public Accountants (ISR)

Somekh Chaikin

Certified Public Accountants (ISR)

Tel Aviv, February 28, 2011

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

We have audited the accompanying balance sheets of Europay (Eurocard) Israel Ltd. (hereinafter: "the Company") as of December 31, 2010 and 2009 and the statements of profit and loss, reports on changes in shareholders' equity, and statements of cash flows of the Company for each of the three years in the period ended on December 31, 2010. These financial statements are at the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of operations, changes in shareholders' equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2010, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB), as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as of December 31, 2010, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Ziv Haft

Certified Public Accountants (Isr.)

Somekh Chaikin

Certified Public Accountants (Isr.)

Tel Aviv, February 28, 2011

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	**2010**	**2009**
Assets			
Other assets	3	183	183
Total assets		**183**	**183**
Liabilities and capital			
Contingent liabilities and special agreements	5		
Shareholders' equity	4	183	183
Total liabilities and capital		**183**	**183**

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

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

Tel Aviv, February 28, 2011

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2010	2009	2008
Net operating expenses under the agreement with Isracard Ltd.	6	(4)	(2)	(2)
Profit from financing activity		4	4	8
Operating (loss) profit before taxes		(*-)	2	6
Provision for taxes on operating profit	8	(A)*-	1	2
Net (loss) profit		(*-)	1	4
Basic and diluted net (loss) profit per common share (in NIS)		(*-)	2	9
Number of common shares used in calculation		427,699	427,699	427,699

* Amount lower than NIS 0.5 million.

(A) See Note 5B.

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	Share capital	Premium on shares	Total capital	Retained earnings	Total shareholders' equity
Balance as of December 31, 2007	1	*-	1	177	178
Net profit in accounting year	-	-	-	4	4
Balance as of December 31, 2008	1	*-	1	181	182
Net profit in accounting year	-	-	-	1	1
Balance as of December 31, 2009	1	*-	1	182	183
Net profit in accounting year	-	-	-	(*-)	(*-)
Balance as of December 31, 2010	**1**	***-**	**1**	**182**	**183**

* Amount lower than NIS 0.5 million.

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

Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Cash flows generated by operating activity			
(Loss) profit for the year	(*-)	1	4
Adjustments required to present operating cash flows:			
Decrease (increase) in other assets	*-	(1)	35
Increase (decrease) in creditors and credit balances	-	-	(39)
Net cash generated by operating activity	**-**	**-**	**-**
Cash flows generated by activity in liabilities and capital			
Dividend paid to shareholders	-	-	-
Net cash generated by activity in liabilities and capital			
Increase (decrease) in cash and cash equivalents	-	-	-
Balance of cash and cash equivalents at the beginning of the year	-	-	-
Balance of cash and cash equivalents at year end	-	-	-

* Amount lower than NIS 0.5 million.

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

Note 1 – General

A. Europay (Eurocard) Israel Ltd. (the "**Company**") was established and incorporated in Israel in 1972 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), which was the controlling shareholder of the Company until July 2009. In July 2009, Isracard purchased the full holdings of Bank Hapoalim and of a subsidiary under its ownership in the Company (for further details, see Note 10).

The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

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

B. The financial statements were prepared in accordance with Israeli GAAP, and with the directives and guidelines of the Supervisor of Banks with regard to the preparation of annual financial statements of credit-card companies.

Note 2 – Reporting Rules and Significant Accounting Policies

A. Definitions

In these financial statements:

1. The Company – Europay (Eurocard) Israel Ltd.
2. The Parent Company – Isracard Ltd.
3. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
4. Interested parties – As defined in Paragraph 1 of the definition of an "interested party of a corporation" in Section 1 of the Securities Law, 1968.
5. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
6. CPI – The consumer price index in Israel, published by the Central Bureau of Statistics.
7. USD – United States dollar.
8. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

A. Definitions (cont.)

9. Reported amount – Amount adjusted to the transition date (December 31, 2003), with the addition of amounts in nominal values added subsequent to the transition date, and subtracting amounts deducted subsequent to the transition date.

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

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

12. Functional currency – The currency of the main economic environment in which the company operates; usually, the currency of the environment in which the corporation derives and expends most of its cash.

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

B. Financial Statements in Reported Amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, “Discontinuance of Adjustment of Financial Statements for Inflation.” In accordance with this standard, and in accordance with Accounting Standard No. 17 of December 2002, the adjustment of financial statements for inflation ceased as of January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements, in accordance with Opinion Statement 36 of the Institute of Certified Public Accountants in Israel. The Company applied the directives of the standard, and accordingly ceased adjusting its financial statements as of January 1, 2004, as noted above, subject to transitional directives established for this purpose by the Supervisor of Banks. Note 9 includes information regarding the Company’s data in historical nominal values.

2. In the past, the Company prepared its financial statements on the basis of historical cost adjusted to the consumer price index. Such adjusted amounts included in the financial statements as of December 31, 2003, served as the opening point for nominal financial reporting from January 1, 2004, forward. Additions performed during the period were included in nominal values. Accordingly, the financial statements for dates and reporting periods after December 31, 2003 are presented in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board and the directives of the Supervisor of Banks.

3. The amounts of non-monetary assets do not necessarily represent the exercise value or the current economic value; they reflect only the reported amounts of those assets.

4. In the financial statements, "cost" refers to cost in reported amounts.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

C. Functional Currency and Presentation Currency

The functional currency and the presentation currency of the Company is the New Israeli Shekel (NIS). The financial statements are presented in NIS, rounded to the nearest million.

D. Reporting Principles

1. Balance sheets

(A) Non-monetary items are presented in reported amounts.

(B) Monetary items are presented in the balance sheet at nominal historical values at the balance-sheet date.

2. Statements of profit and loss

(A) Income and expenses arising from non-monetary items (such as depreciation and amortization, and prepaid income and expenses) or from provisions included in the balance sheet are derived from the difference between the reported amount at the opening balance and the reported amount at the closing balance.

(B) Other components of the statement of profit and loss (such as operating fees) are presented in nominal values.

3. Report on changes in shareholders' equity

Dividends declared or actually paid during the reported period are presented in nominal values.

E. Linkage and Foreign Currency

Transactions in foreign currency are translated into the functional currency at the exchange rate published by the Bank of Israel, in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate in effect on that date. Exchange-rate differences in respect of monetary items are the difference between the depreciated cost in the functional currency at the beginning of the period, adjusted for the effective interest rate and payments during the period, and the depreciated cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency at the exchange rate in effect on the date on which the fair value was determined.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

E. Linkage and Foreign Currency (cont.)

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

The following table shows data regarding the consumer price index (2008 base = 100) and exchange rates, and their rates of change:

	December 31		
	2010	**2009**	**2008**
Consumer price index (in points)	108.0	105.2	101.2
United States dollar exchange rate (in NIS per 1 USD)	3.549	3.775	3.802

	Percent change in the year ended December 31		
	2010	**2009**	**2008**
Consumer price index	2.7	3.9	3.8
USD exchange rate	(6.0)	(0.7)	(1.1)

Effect of Changes in Foreign Currency Exchange Rates

The Company implements Accounting Standard No. 13, "Effects of Changes in Exchange Rates of Foreign Currencies." The standard addresses the translation of transactions in foreign currency and the translation of financial statements of foreign operations for the purpose of integration with the financial statements of the Company. Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate on the date of the transaction. Exchange-rate differences arising from the extinguishment of monetary items or from reporting of monetary items of the Company at exchange rates different from those used for the initial recording during the period, or different from those reported in prior financial statements, were allocated to the statement of profit and loss.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

F. Use of Estimates

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

In formulating the accounting estimates used in the preparation of the financial statements of the Company, the Management of the Company is required to make assumptions regarding circumstances and events that involve significant uncertainty. In exercising its judgment to establish estimates, the Management of the Company relies on past experience, various facts, external factors, and reasonable assumptions, according to the relevant circumstances for each estimate.

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

G. Taxes on Income

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

The Company allocates taxes in respect of temporary differences. Temporary differences are differences between the value of assets and liabilities for tax purposes and their book value. The aforesaid tax allocation is performed in respect of differences related to assets whose consumption or reduction may be deducted for tax purposes.

Balances of deferred taxes (asset or liability) are calculated using the liability method, according to the tax rates that will apply at the time of utilization of the deferred taxes or at the time of exercise of the tax benefits, based on the tax rates and tax laws legislated or the legislation of which has been essentially completed by the balance-sheet date.

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

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

H. Earnings Per Share

The Company presents basic and diluted earnings per share data with regard to its common share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the common shares of the Company by the weighted average number of common shares in circulation during the period. Diluted earnings per share are established by adjusting the profit or loss attributed to holders of the common shares and adjusting the weighted average of the common shares in circulation for the effects of all of the potential diluting common shares, which include, among others, notes exercisable into shares, options for shares, and options for shares granted to employees.

I. Segmental Reporting

The Company's operations are primarily conducted in the Acquiring Segment. In previous years, additional activity was conducted in another segment.

J. Statement of Cash Flows

The statement of cash flows is presented with classification into cash flows generated by operating activity, activity in assets, and activity in liabilities and capital. Cash flows generated by activity in assets and in liabilities and capital are presented net, with the exception of changes in non-monetary assets.

K. Fair Value of Financial Instruments

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

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

1. GAAP for US Banks

In July 2009, the US Financial Accounting Standards Board (FASB) changed the organization of its accounting standards. The change is established in FASB Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (currently ASC 105-10, “Generally Accepted Accounting Principles”). The statement establishes the FASB Accounting Standards Codification (ASC) as the exclusive source of generally accepted accounting principles in the United States applicable to reporting corporations that are not government agencies (nongovernmental US GAAP), with the exception of the instructions of the US Securities

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

and Exchange Commission (SEC). Therefore, all rules not adopted in the aforesaid manner and rules not stemming from instructions of the SEC are not included in the codification and have become non-binding rules. Following the codification, the FASB will no longer issue Statements of Financial Accounting Standards (SFAS), FASB Staff Positions, or clarifications and guidelines on specific issues (EITF Abstracts). Instead, it will publish Accounting Standards Updates (ASU) to update the codification.

Starting January 1, 2010, pursuant to the update of the definitions section established in the circular of the Supervisor of Banks, “Fair Value Measurements, the Fair Value Option, and the Adoption of Certain IFRS,” issued on December 31, 2009, the Company adopted the new hierarchy established in FAS 168 (ASC 105-10). In addition, as determined by the Supervisor of Banks, despite the hierarchy established in FAS 168, any position stated to the public by bank supervision agencies in the United States or by staff members of bank supervision agencies in the United States with regard to the manner of implementation of US GAAP is a generally accepted accounting principle for US banks and shall also be binding for banking corporations and credit-card companies on matters of the implementation of US accounting principles adopted in the past or to be adopted in the future within the Public Reporting Directives of the Supervisor of Banks.

The implementation of the codification had no effect on the accounting principles applicable to banks and credit-card companies; it affects only the manner in which banks and credit-card companies will treat generally accepted accounting principles for banks in the US, mainly reporting rules and accounting policies in interim and annual financial statements for periods beginning January 1, 2010 or later. The Company will note the reference for US accounting rules along with the corresponding previous accounting standard or publication.

2. Adoption of FAS 166, "Accounting for Transfers of Financial Assets," and FAS 167, “Amendments to FIN 46(R)”

In June 2009, the FASB issued FAS 166 (ASC 860-10), "Accounting for Transfers of Financial Assets" (an amendment of FAS 140 (ASC 860-10)). FAS 166 cancels the principle of Qualified Special Purpose Entities (QSPE); establishes stricter terms for accounting treatment as a sale with regard to the transfer of part of a financial asset, including clarifications of the conditions for derecognition of financial assets; and amends measurement rules for the initial recognition of retained interests.

The FASB concurrently issued FAS 167 (ASC 810-10), “Amendments to FASB Interpretation No. 46(R)” (ASC 810-10), which amends the rules set forth in FIN 46(R) (ASC 810-10), “Consolidation of Variable Interest Entities.” FAS 167 requires an examination, at the initial implementation date of the standard on January 1, 2010, of the consolidation requirement with regard to all Variable Interest Entities (VIEs) in which the Company is involved; updates the criteria for the identification of VIEs; changes the method of establishing the identity of the primary beneficiary (from an approach based on quantitative tests to a qualitative test to identify the control of financial rights); and

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

requires reporting corporations to reexamine the requirement to consolidate VIEs more frequently.

In addition, FAS 166 and FAS 167 establish new disclosure requirements to be included in annual and interim financial statements.

Pursuant to the circular of the Supervisor of Banks of September 6, 2009, the Company implements the rules set forth in FAS 166 and FAS 167, including the disclosure requirements established therein, from January 1, 2010 forward, in accordance with the transitional directives established in those standards. In general, the transitional directives require the following:

- Implementation of the recognition and measurement requirements in the standard with regard to transfers of financial assets performed as of January 1, 2010.
- From January 1, 2010 forward, examination of entities defined as QSPEs under the former rules, to determine whether consolidation is required pursuant to FAS 167.

The effect of the initial implementation of FAS 166 and FAS 167 on the Company is immaterial.

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

1. Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)”

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

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

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

- On matters not related to the core business of banking – As of January 1, 2011. From that date forward, banking corporations and credit-card companies will be required to update the accounting treatment of these matters routinely, pursuant to the transitional directives in the new international standards to be published on these matters, and in accordance with the clarifications to be issued by the Supervisor of Banks.

- On matters related to the core business of banking – As of January 1, 2013. The Supervisor of Banks intends to reach a final decision on this matter during 2011. The final decision will be made taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.

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

Thus, until the target dates for the adoption of IFRS, as noted above, the financial statements of banking corporations and credit-card companies will continue to be prepared in accordance with the directives and guidelines of the Supervisor of Banks.

On December 31, 2009, the Supervisor of Banks issued a circular concerning "Fair Value Measurements, the Fair Value Option, and the Adoption of Certain IFRS," and an additional circular was issued on July 26, 2010 concerning "The Adoption of Certain IFRS." Pursuant to the aforesaid circulars, at this stage, the following IFRS were adopted, which address matters not related to the core business of banking:

(1) IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;

(2) IAS 21, The Effects of Changes in Foreign Exchange Rates;

(3) IAS 33, Earnings Per Share;

(4) IFRS 2, Share-Based Payment;

(5) IAS 29, Financial Reporting in Hyperinflationary Economies;

(6) IAS 34, Interim Financial Reporting;

(7) IFRS 3 (2008), Business Combinations;

(8) IAS 27 (2008), Consolidated and Separate Financial Statements;

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

(9) IAS 28, Investments in Associates;

(10) IAS 36, Impairment of Assets;

(11) IAS 17, Leases;

(12) IAS 16, Property, Plant and Equipment;

(13) IAS 40, Investment Property.

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

(15) IAS 10, Events After the Reporting Period;

(16) IAS 20, Accounting for Government Grants and Disclosure of Government Assistance;

(17) IAS 31, Interests In Joint Ventures;

(18) IAS 38, Intangible Assets.

The IFRS listed above and the related interpretations of the IFRIC (International Financial Reporting Interpretations Committee) are to be adopted according to the following principles:

- In cases in which material matters are not specifically addressed by the standards or interpretations, or there are a number of alternatives for the treatment of a material matter, banking corporations and credit-card companies shall act according to specific implementation instructions established by the Supervisor;
- In cases in which a material issue arises which is not resolved in the IFRS or in the implementation instructions of the Supervisor, banking corporations and credit-card companies shall treat the issue according to GAAP at US banks specifically applicable to these matters;
- Where an IFRS contains a reference to another IFRS adopted in the Public Reporting Directives, the banking corporation or credit-card company shall act in accordance with the IFRS;
- Where an IFRS contains a reference to another IFRS not adopted in the Public Reporting Directives, the banking corporation or credit-card company shall act in accordance with the Reporting Directives and with Israeli GAAP;

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

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

Banking corporations and credit-card companies shall implement the IFRS listed above and the IFRIC interpretations related to the implementation of these standards from January 1, 2011 forward. The first-time implementation of the IFRS adopted in this circular shall be performed in accordance with transitional directives established in these IFRS, including the retroactive adjustment of comparison figures when necessary. As of January 1, 2011, banking corporations and credit-card companies shall routinely update the accounting treatment of the matters addressed in the circular, according to the inception dates and transitional directives established in new IFRS to be issued on these matters, and according to the adoption principles and clarifications of the Supervisor of Banks.

Description of the main effects of the adoption of IFRS applicable as of January 1, 2011

(A) IFRS 2, Share-Based Payment

Equity grants performed after November 7, 2002 and before March 15, 2005 are treated retroactively in accordance with the standard. The initial implementation of the standard is expected to have no effect.

(B) IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations

Israeli GAAP, as adopted in the directives of the Supervisor of Banks, do not provide specific instructions for the measurement of assets held for sale. Pursuant to the international standards, as adopted in the Public Reporting Directives, non-current assets and realization groups meeting the criteria set forth in the standard, with the exception of assets seized, as defined in the Public Reporting Directives, shall be measured according to the lower of the book value or the fair value net of selling costs. In addition, under IFRS, no depreciation is included in respect of such assets from the date of the classification of the assets as held for sale. The standard is implemented from this point forward, starting with the financial statements for periods beginning January 1, 2011. The initial implementation of this standard is expected to have no effect.

The initial implementation of the remaining standards listed above is expected to have no effect.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

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

A circular of the Supervisor of Banks on the subject of the measurement and disclosure of impaired debts, credit risk, and provision for credit losses was issued in December 2007. The circular is based, among other matters, on US accounting standards (ASC 310) and on the relevant regulatory directives of bank supervision agencies and the Securities and Exchange Commission in the United States. The guiding principles of the circular represent a substantial change from the current directives on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts. The Company has examined the effects of the implementation of the directives in the circular on the financial statements. According to the Company's estimates, there is no effect on the balance of retained earnings, the recorded debt balance, or the provision for credit losses as of January 1, 2011.

3. Adoption of FAS 157, Fair Value Measurements, and FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities

In September 2009, the FASB issued FAS 157, Fair Value Measurements (currently ASC 820-10, Fair Value Measurements and Disclosures), which defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the banking corporation. These types of inputs give rise to the hierarchy of fair value described below:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobserved.

In addition, FAS 157 expands the disclosure requirements for measurements of fair value.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

FAS 157 (ASC 820-10) will apply from January 1, 2011 forward, and will be adopted for the first time in a limited format of retroactive implementation. Consequently, the standard will be implemented from this point forward, with the exception of financial instruments measured prior to its initial implementation.

At the initial implementation date, the difference between the balance-sheet balances of the financial instruments and the fair values of those instruments shall be recognized as a cumulative effect in the opening balance of retained earnings as of January 1, 2011, which will be presented separately. According to estimates by the Company, there is no effect on the balance of retained earnings as of January 1, 2011.

The new disclosure requirements, including the disclosure required in annual statements only, were implemented in the first quarter of 2011, with no obligation to apply the aforesaid disclosure requirements to financial statements for periods presented before the initial implementation of the standard.

In addition, the transitional directives for 2011 set forth specific instructions regarding the data to be used in the calculation of the fair value of derivative instruments. It was further established that in quarterly and annual financial statements in 2011, banking corporations and credit-card companies are not required to use complex models that include different scenarios of potential exposure in order to measure the credit-risk component included in the fair value of derivative instruments.

The adoption of the standard is expected to have no effect at the initial implementation date.

FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (ASC 825-10, Financial Instruments: Fair Value Option)

In February 2007, the FASB issued FAS 159 (ASC 825-10), which includes an amendment of FAS 115. The purpose of the standard is to allow reduced fluctuations in reported profits arising from the measurement of hedged assets and hedged liabilities and hedging derivative instruments using different measurement bases.

FAS 159 (ASC 825-10) allows banking corporations and credit-card companies to choose, at defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under Public Reporting Directives are not required to be measured at fair value. Unrealized profits and losses in respect of changes in the fair value of the items for which the fair value option is selected shall be reported in the statement of profit and loss for each consecutive reporting period. In addition, prepaid costs and fees related to the items for which the fair value option is selected shall be recognized in profit and loss on the date of creation, rather than deferred. The choice to apply the fair value option, as noted above, shall be made instrument by instrument, and cannot be cancelled. In addition, FAS 159 (ASC 825-10) establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different measurement bases for similar types of assets and liabilities.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

Despite the aforesaid, the circular clarifies that a banking corporation or credit-card company shall not choose the fair value option unless the banking corporation or credit-card company has developed knowledge, systems, procedures, and controls at a high level, in advance, which will enable it to measure the item at a high degree of reliability. Thus, a banking corporation or credit-card company shall not choose the fair value option with regard to any asset classified in level 2 or level 3 of the fair value hierarchy, or with regard to any liability, unless it receives advance approval to do so from the Supervisor of Banks.

FAS 159 (ASC 825-10) will apply from January 1, 2011 forward. Implementation through retroactive adoption or implementation through early adoption is prohibited.

The transitional directives of the Supervisor of Banks refer to the implementation with regard to eligible assets existing at the inception date, and to securities available for sale and securities held to maturity, as follows:

- Implementation for eligible items existing at the inception date: A banking corporation or credit-card company is permitted to choose the fair value option for eligible items existing at the inception date. In these cases, the balance-sheet balances of these eligible items shall be adjusted to fair value, and the effect of the initial re-measurement at fair value shall be allocated as an adjustment in respect of the cumulative effect to the opening balance of retained earnings. In addition, a banking corporation or credit-card company choosing the fair value option for items existing at the inception date shall include extensive disclosures, as required in the circular, in its annual financial statements and in its first interim financial statements for 2011.

- Securities available for sale and securities held to maturity: Securities available for sale and securities held to maturity held at the inception date are eligible for the fair value option at that date. If the fair value option is chosen for any of these securities at the inception date, accrued profits and losses not yet realized at that date shall be included in the adjustment in respect of the cumulative effect, and the security in question shall be reported as of that date as a security held for trading. In addition, separate disclosure shall be given to the amount of unrealized profits and losses reclassified from cumulative other comprehensive profit, and to the amount of unrealized profits and losses not previously recognized. The choice of the fair value option for an existing security held to maturity at the initial adoption shall not cast doubt on the banking corporation or credit-card company's intention to hold other bonds to maturity in the future.

The Company has examined the implications of the adoption of the standard on the financial statements; according to its estimates, there is no effect on the balance of retained earnings as of January 1, 2011.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

4. New Disclosure Requirements Regarding Fair Value Measurements – ASU 2010-06

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, "Improving Disclosures about Fair Value Measurements." The update requires disclosure of amounts of significant transitions from level 2 fair value measurements to level 1 measurements and vice versa, and the inclusion of explanations for such transitions. In addition, the update requires disclosure of gross amounts of changes in level 3 fair value measurements resulting from transactions of acquisition, sale, issuance, and maturation. These disclosure requirements will apply to the quarterly and annual financial statements of credit-card companies for the reporting periods beginning from January 1, 2011 forward. The Company is examining the implementation of the aforesaid additional disclosure requirements as part of the project of preparing for the implementation of FAS 157 (ASC 820-10).

5. Accounting Standard No. 23, Accounting Treatment of Transactions between an Entity and its Controlling Party

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

The standard addresses three issues related to transactions between an entity and its controlling party, as follows: transfer of an asset to the entity from the controlling party, or alternatively, transfer of an asset from the entity to the controlling party; the undertaking of a liability of the entity towards a third party, in full or in part, by the controlling party, indemnification of the entity by its controlling party for an expense, or a waiver by the controlling party of a debt owed to it by the entity, in full or in part; and loans given to the controlling party or received from the controlling party. The standard further stipulates the disclosure to be made in the financial statements with regard to transactions between the entity and its controlling party during the period.

Note 2 – Reporting Rules and Significant Accounting Policies (cont.)

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

In May 2008, the Supervisor of Banks issued a letter indicating that the rules to apply to banking corporations and credit-card companies with regard to the treatment of transactions between entities and their controlling parties are being reexamined. According to the letter, the Supervisor of Banks intends to establish the following rules to apply to transactions between a banking corporation or a credit-card company and its controlling party, and to transactions between a banking corporation and a company under its control:

- International Financial Reporting Standards (IFRS);
- In the absence of a specific reference in the IFRS, generally accepted accounting principles in the United States (US GAAP) applicable to banking corporations in the United States will apply, provided that they do not contradict the IFRS;
- In the absence of a reference in US GAAP, the sections of Standard 23 will apply, provided that they do not contradict the IFRS and US GAAP, as noted above.

As of the date of publication of the financial statements, the Supervisor of Banks has not yet issued a final directive with regard to the adoption of specific rules on this subject or with regard to the initial implementation thereof.

Note 3 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Surplus of advance income-tax payments over current provisions	1	2
Isracard Ltd.(1)	182	181
Total other assets	**183**	**183**

(1) The debt to Isracard Ltd. (the Parent Company) is an unlinked debt with no maturity date. For further details see Note 5D.

Note 4A – Shareholders' Equity

A. Composition

	December 31, 2010 and 2009	
	Registered	**Issued and paid-up**
	In NIS	**In NIS**
Common shares of NIS 0.0001	100	43

Note 4B – Capital Adequacy According to the Directives of the Supervisor of Banks[1]

Reported amounts

1. Capital for the calculation of the capital ratio

	December 31, 2010	December 31, 2009
	NIS millions	
Tier 1 capital	183	183
Total overall capital	**183**	**183**

2. Weighted balances of risk-adjusted assets

	December 31, 2010		December 31, 2009	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	91	8	91	8
Operational risk	7	1	15	1
Total weighted balances of risk-adjusted assets	**98**	**9**	**106**	**9**

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	186.7	172.6
Ratio of tier 1 capital to risk-adjusted assets	186.7	172.6
Ratio of total capital to risk-adjusted assets	186.7	172.6
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

1. Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.”

Note 5 – Contingent Liabilities and Special Agreements

A. Antitrust Issues and Recommendations for Additional Regulation

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

Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner; the Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until August 15, 2011. Among other matters, the aforesaid Arrangement includes the establishment of an interchange fee (a fee paid by the acquirer of a credit-card transaction to the issuer of the credit card).

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

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

Additional Regulation

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

Note 5 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Recommendations for Additional Regulation (cont.)

2. A private bill was submitted to Knesset in May 2009 concerning the right of a credit-card holder to instruct the credit-card company to cease debits due to a flaw in the basic transaction between the cardholder and the merchant with which the transaction was executed. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation. If the bill results in legislation, it will have an impact on the Company, but at this stage the Company cannot estimate the extent of this impact.

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

4. In May 2009, a private bill was submitted to Knesset, according to which banking corporations that realize assets of borrowers due to the failure to repay a loan shall not be permitted to collect fees for such realization or for the early repayment of the loan. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation. The Company estimates that even if this bill results in legislation, it will not have a material impact on the Company.

5. A private bill was submitted to Knesset in February 2010 according to which credit-card companies must note extensive details of merchants in their reports to cardholders. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

6. A private bill was submitted to Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

Note 5 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Recommendations for Additional Regulation (cont.)

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

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

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

10. In July 2010, the Fuel Industry Law (Promotion of Competition) was amended, with regard to the promotion of competition in the area of automatic refueling. The amendment authorizes the Minister of National Infrastructures to enact regulations with the aim of promoting competition. This amendment may have a bearing on the Company due to the fact that the Company issues refueling devices and cards that constitute "charge cards" pursuant to the Charge Cards Law, 1986. At this stage, the Company cannot estimate the implications of this amendment for the activity of the Company in the area of refueling devices/cards, if any.

Note 5 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Recommendations for Additional Regulation (cont.)

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

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

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

14. In October 2010 and in December 2010, private bills were submitted to Knesset concerning discounting. At this stage, the Company cannot estimate whether these bills will result in legislation, and it cannot estimate the implications of the bills for the Company, if any.

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

Note 5 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Recommendations for Additional Regulation (cont.)

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

17. In February 2011, a government bill was submitted to Knesset and passed in the first reading, concerning matters including discounting, the possibility of opening the credit-card acquiring market to competition for brands with market shares of 10% or more, and licensing of credit-card acquiring. At this stage, the Company cannot estimate whether this bill will result in legislation. If the bill results in legislation, it will have a material adverse effect on the Company; however, at this stage the Company cannot estimate the extent of this effect.

B. Legal Proceedings and Pending Claims

1. Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants’ arguments is low; therefore, no provision was made in respect of these claims.

2. In July 2010, the Company filed an appeal of its income-tax assessment for 2006. The dispute between the Company and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of the Company, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. The Company has appealed the tax assessment. In the opinion of its legal advisors, the probability of winning the appeal is high.

C. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company. The aggregate amount of the indemnification to be provided by the Company, pursuant to the commitment, to all directors of the Company in respect of one or more indemnification events shall not exceed 30% of its shareholders' equity according to its financial statements as of June 30, 2004 (which stood at a total of NIS 190 million).

D. Agreement with Isracard (the Parent Company)

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

Acquiring of transactions executed in Israel using cards issued abroad

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

E. Contractual Engagements with Banking Corporations

Contractual engagement with Bank Yahav – In January 2009, the existing agreements of the Company and Isracard with Bank Yahav with regard to the various payments paid to Bank Yahav were updated, in a manner related to the volume of activity in cards issued by the Company and by Isracard to customers of Bank Yahav. The agreements were updated during 2010, with immaterial changes.

F. Contractual Engagement with the Hever Club

In January 2009, Hever Career Military Personnel and Retirees Ltd. and Hever Consumer Club Ltd. (jointly: the "**Hever Club**") entered into an agreement with the Company, Isracard, and Poalim Express for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). In March 2009, the Company, Isracard, and Poalim Express began marketing the card to the members of the Hever Club. The term of the Hever Agreement is six years from the aforesaid execution date, and may be extended in accordance with its terms. In addition, arrangements were formulated with regard to the termination of prior contractual engagements, including the required adjustments in the relationships between the relevant parties.

Pursuant to the Hever Agreement, among other matters, Isracard will extend credit for the Hever Credit Cards. The Hever Agreement also regularizes various matters pertaining to the cards, including arrangements for payment and account settlement between the parties, the process of issuing the new cards, operational matters, benefits and rights of Hever Club members, and marketing.

Note 6 – Net Operating Income (Expenses) Under the Agreement with Isracard Ltd.

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Income			
Income in respect of merchants	14	*13	*16
The Company's share of royalties from Banks Under Arrangement	3	*3	*4
Total income	**17**	**16**	**20**
Expenses			
Operating expenses	17	15	17
Payments for operation and management of the arrangement	4	3	5
Total expenses	**21**	**18**	**22**
Total	**(4)**	**(2)**	**(2)**

* Reclassified.

Note 7 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2010		December 31, 2009	
	Other interested parties		Other interested parties	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Isracard Ltd.	183	183	181	181

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

	For the year ended December 31		
	2010	2009	2008
Operating income (expenses)	(4)	(2)	(2)
Net financing income	4	4	8
Total	**(*-)**	**2**	**6**

(1) See Note 6.

* Amount lower than NIS 0.5 million.

Note 8 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31		
	2010	**2009**	**2008**
Current taxes for the accounting year	*-	1	2

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

	For the year ended December 31		
	2010	**2009**	**2008**
Tax rate applicable to the Company in Israel	25%	26%	27%
Tax amount based on statutory rate	*-	1	2
Tax increment (saving) in respect of:			
Increment (deduction) due to inflation	-	-	-
Provision for taxes on income	***-**	**1**	**2**

* Amount lower than NIS 0.5 million.

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

Note 8 – Provision for Taxes on Operating Profit (cont.)

4. Reduction in Tax Rates

On July 25, 2005, the Knesset approved the Income Tax Ordinance Amendment Law (No. 147), 2005, which among other matters sets forth a gradual reduction of the corporation tax rate, to 25% from the tax year 2010 forward.

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

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

Consequently, the weighted tax rates (including the profit tax on income) applicable to the income of subsidiaries that constitute financial institutions are as follows: 36.21% in 2009, 25.34% in 2010, 24.48% in 2011, 33.62% in 2012, 32.47% in 2013, 31.60% in 2014, 30.74% in 2015, and 29% from 2016 forward.

The effect of this change is reflected in the financial statements in the form of a decrease in the balance of the deferred tax asset, and the recognition of expenses in an immaterial amount.

Note 9 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

	December 31	
	2010	2009
Total assets	183	183
Total liabilities	-	-
Shareholders' equity	183	183
Nominal net (loss) profit	(*-)	1

Note 10 – Other Matters

In July 2009, Isracard purchased the full holdings in the Company of Bank Hapoalim and of a subsidiary under its ownership: 98.2% of the issued and paid-up common share capital, and 100% of the issued and paid-up special share capital of the Company. The remaining issued and paid-up common share capital of the Company (1.8%) is held by Mizrahi-Tefahot Bank Ltd. The consideration paid by Isracard for the acquisition was determined in accordance with an assessment performed for the Company, in the amount of approximately NIS 182 million.

Note 11 – Events After the Balance-Sheet Date

In February 2011, the Company signed an agreement with Union Bank Ltd. for the distribution of credit cards to the customers of the bank.