Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2010

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Isracard Ltd. and its Consolidated Companies

Board of Directors' Report

For the Year Ended December 31, 2010

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 consolidated financial statements of Isracard Ltd. ("**the Company**" or "**Isracard**") and its consolidated companies for the year 2010.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1975 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), and Bank Hapoalim is the controlling shareholder of the Company.

The Company is a credit-card company operating in three main segments of activity, constituting the core of its operations: credit-card issuing, credit-card acquiring, and financing. The Company is an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981 ("**auxiliary corporation**"). The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. ("**Europay**"), which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license granted to Europay by MasterCard International Incorporated ("**the MasterCard Organization**").

Credit-card systems consist of an issuer, an acquirer, a merchant, and a customer (the cardholder). In some cases, the acquirer is also the issuer of the credit card, whereas in other cases the acquirer and the issuer are not the same entity.

The Company's other activities, each of which does not constitute a reportable segment, are concentrated under the "Other" operating segment.

Holding Structure of the Company

The Company has five consolidated companies: Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Europay (Eurocard) Israel Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd.

- **Isracard Mimun Ltd. ("Isracard Mimun")** was established in 2004, and is a wholly owned and controlled subsidiary of the Company. Isracard Mimun provides credit to holders of non-bank credit cards in the Isracard Group, extends loans to merchants acquiring transactions through the Group, and provides non-credit-card consumer credit. The balance of credit at Isracard Mimun to clients and merchants totaled approximately NIS 841 million on December 31, 2010, compared with approximately NIS 736 million on December 31, 2009. In addition, Isracard granted advance payments to merchants with a balance of NIS 255 million as of December 31, 2010 (December 31, 2009: NIS 332 million).

- **Isracard (Nechasim) 1994 Ltd. ("Isracard Nechasim")** was established in 1994, and is a wholly owned and controlled subsidiary of the Company. Isracard Nechasim is the joint owner with N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts of the ownership rights to a property located on Hamasger Street in Tel Aviv, where the Company's offices are situated, among other things. Isracard Nechasim rents most of the property to Isracard, and the remainder of the property to Bank Hapoalim and to a subsidiary of Bank Hapoalim. Additional non-material activity of Isracard Nechasim includes the management of funds in deposits in respect of proceeds from the sale of gift cards by Isracard, from the date on which the funds are received until the date of payment to the merchant.

- **Europay (Eurocard) Israel Ltd.** – Europay was established and incorporated in Israel in 1972 as a private company by Bank Hapoalim, which was the controlling shareholder of the company until July 2009. In July 2009, the Company acquired the entire holdings of Bank Hapoalim and of a subsidiary under its ownership in Europay, comprising 98.2% of the issued and paid-up common share capital and 100% of the issued and paid-up special share capital of Europay. The remaining issued and paid-up common share capital of Europay (1.8%) is held by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). The consideration paid by the Company for the acquisition was determined in accordance with an assessment performed for Europay, in the amount of approximately NIS 182 million.

  Europay is a credit-card company and an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981. Europay issues MasterCard cards, jointly with the Company. The cards are issued by Europay for use abroad and by the Company for use in Israel, under a license granted to Europay by the MasterCard Organization. In addition, Europay 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, the Company manages and operates issuance and acquiring activities of the aforesaid credit cards for Europay.

- **Tzameret Mimunim Ltd. ("Tzameret Mimunim")** – In March 2010, the Company acquired the full holdings (100%) of Hapoalim Nechasim (Menayot) Ltd. ("Hapoalim Nechasim), a subsidiary of Bank Hapoalim, in the shares of Tzameret Mimunim. Tzameret Mimunim is engaged in discounting of credit-card sales slips. The acquisition, in the amount of NIS 71.4 million, was aimed at centralizing the area of credit card sales slip discounting at the Company. The consideration paid by the Company for the acquisition was determined according to an assessment performed for Tzameret Mimunim.

- **Global Factoring Ltd. ("Global")** – In August 2009, an agreement was signed between the Company and Global, a private factoring company, and its shareholders, pursuant to which 51% of the issued capital of Global (after the allocation) was allocated to Isracard. With the signing of the agreement, Global became an auxiliary banking corporation; beyond the rules applicable to auxiliary corporations in general, it is also subject to the instructions in the Bank of Israel's approval of the transaction.

In addition, the Company has holdings in the following companies:

- 20% of the paid-up share capital of **Kidum Mivne Iguach 1 Ltd.**
- 20% of the paid-up share capital of **I.M.T. - The Central Vehicle Distribution Company Ltd.**
- 15% of the issued share capital of **Life Style Customer Loyalty Club Ltd.** and **Life Style Financing Ltd.** For further details, see Note 18J to the Financial Statements.
- Approximately 13% of the issued share capital of **Store Alliance.com Ltd.**

Dividend distribution – The Company has not distributed dividends to its shareholders since April 2008.

Structure of Holdings of Isracard as of December 31, 2010

- Isracard Ltd.
  - Isracard Mimun Ltd. – 100%
  - Isracard Nechasim (1994) Ltd. – 100%
  - Tzameret Mimunim Ltd. – 100%
  - Europay (Eurocard) Israel Ltd. – 98.2%
  - Global Factoring Ltd. – 51%
  - Kidum Mivne Iguach 1 Ltd. – 20%
  - IMT - The Central Vehicle Distribution Company Ltd. – 20%
  - Life Style Customer Loyalty Club Ltd. – 15%
  - Life Style Financing Ltd. – 15%
  - Store Alliance.Com Ltd. – ~13%

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. The cumulative effect of the improvement in economic conditions in 2010 was a significant increase in the volume of activity in the Company’s credit cards.

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 Europay (Eurocard) Israel Ltd. (“**Europay**”), which issue and acquire Isracard and MasterCard credit cards, respectively; (2) Poalim Express Ltd., a sister company, which issues and acquires American Express credit cards; (3) Aminit Ltd. ("**Aminit**"), a sister company, 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 (American Express, MasterCard, Visa, and Diners) under licenses granted by the relevant international organizations.

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 5746-1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 5741-1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 5760-2000 (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 Visa and MasterCard 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.

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as of December 31, 2010

	Active cards	Inactive cards	Total
Bank cards	1,919	296	2,215
Non-bank cards –			
Credit risk on the Company	400	88	488
Credit risk on others	87	56	143
	487	144	631
Total	**2,406**	**440**	**2,846**

Number of valid credit cards as of December 31, 2009

	Active cards	Inactive cards	Total
Bank cards	1,931	310	2,241
Non-bank cards –			
Credit risk on the Company	308	85	393
Credit risk on others	86	54	140
	394	139	533
Total	**2,325**	**449**	**2,774**

Volume of Transactions in Credit Cards Issued by the Company (in NIS millions)

	For the year ended December 31	
	2010	**2009**
Bank cards	68,433	65,606
Non-bank cards –		
Credit risk on the Company	8,638	4,463
Credit risk on others	2,090	1,967
	10,728	6,430
Total	**79,161**	**72,036**

Definitions:

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

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

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

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

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

Profit and Profitability in the Consolidated Report

The Company's net profit totaled NIS 185 million, compared with NIS 148 million in 2009, an increase of 25.0%. The increase in net profit resulted from an increase of approximately 10.4% in the Company's revenues, which mainly resulted from an increase in the volume of transactions, versus an increase in expenses of only approximately 4.8% (excluding the effect of the restatement; see Note 1DD to the Financial Statements, below).

Net return on average equity reached 16.2%, compared with 15.2% in 2009.

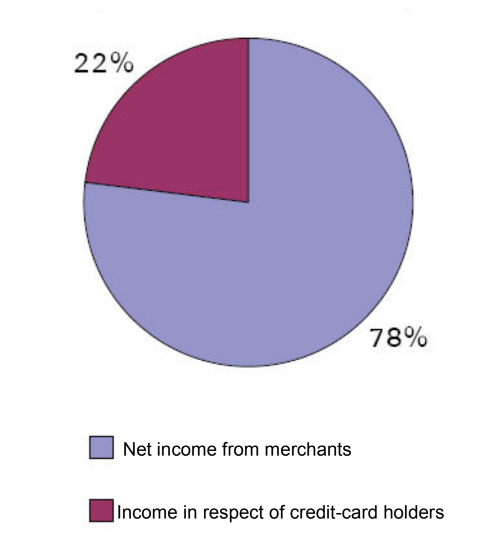
Developments in Income and Expenses

Income totaled NIS 1,328 million, compared with NIS 1,203 million in 2009, an increase of 10.4%.

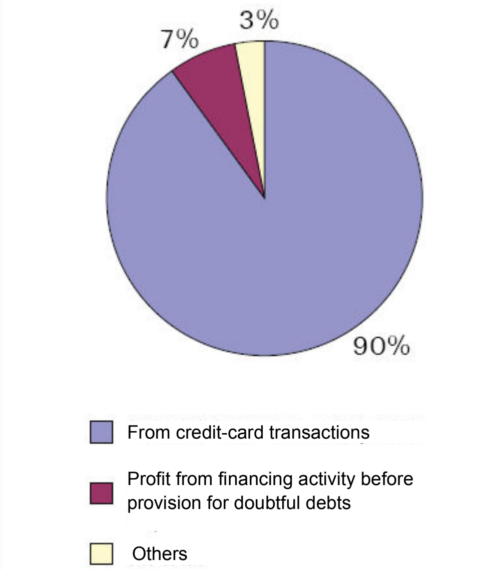
Income from credit-card transactions totaled NIS 1,194 million, compared with NIS 1,105 million in 2009, an increase of 8.1%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 926 million, compared with NIS 853 million in 2009. The 8.6% increase resulted from an increase in the volume of the Company's transactions in the areas of acquiring and issuing.
- Income in respect of credit-card holders totaled NIS 268 million, compared with NIS 252 million in 2009, an increase of 6.3%, which mainly resulted from an increase in the volume of transactions using the Company's cards in Israel acquired by other acquirers.

Composition of income from credit-card transactions, 2010



Composition of income, 2010

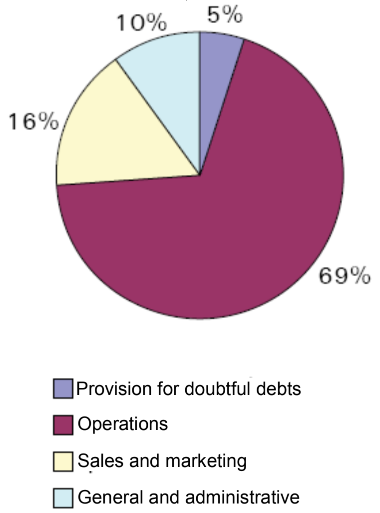


Profit from financing activity before provision for doubtful debts totaled NIS 99 million, compared with NIS 68 million in 2009, an increase of 45.6%, which mainly resulted from an increase in credit activity.

Other income totaled NIS 35 million, compared with NIS 30 million in 2009, an increase of 16.7%.

Expenses before payments to banks totaled NIS 682 million, compared with NIS 629 million in 2009, an increase of 8.4% (for an explanation of this increase, see the operating expenses item below).

Composition of expenses before payments to banks, 2010



Expenses including payments to banks totaled NIS 1,074 million, compared with NIS 1,001 million in 2009, an increase of 7.3% (for an explanation of this increase, see the operating expenses item below).

The provision for doubtful debts totaled NIS 38 million, compared with NIS 29 million in 2009, an increase of 31.0%.

Operating expenses totaled NIS 469 million, compared with NIS 389 million in 2009, an increase of 20.6%. The increase resulted from the following factors:

- An increase in salary expenses, mainly due to an improvement of the call centers. The Company won a first-place award for excellence in service from the Israel Management Center (IMC).
- An increase in depreciation and data processing expenses, due to an increase in the Company's investments and expenses, mainly in the area of computer systems and software.

- An increase in expenses on the production and delivery of debit statements for cardholders and credit statements for merchants, as a result of the growth in the Company's activity, and registration gifts for cardholders.
- Payments for the operation of clubs.

Sales and marketing expenses totaled NIS 109 million, compared with NIS 142 million in 2009, a decrease of 23.2%. The decrease resulted from gift offers for cardholders (the Stars loyalty program). The comparison figures for 2009 are presented after restatement (see Note 1DD to the Financial Statements). Expenses for 2010 are after calculation of the provision for the loyalty program, in accordance with the Company's announcement of the termination of this offer during 2011. The announcement of the termination of the offer led to a decrease in the rate of the provision in respect of the balance of unutilized Stars as of the end of 2010, from 85% of the balance of unutilized Stars in 2009 to 48% of the balance of unutilized Stars in 2010, which caused a decrease in the amount of the provision, reflected in a substantial decrease in the amount of the expense presented in the financial statements. The Company will announce a new, enhanced system of benefits in the coming few months, and will notify its customers.

General and administrative expenses totaled NIS 66 million, compared with NIS 69 million in 2009, a decrease of 4.3%.

Payments to banks under agreements with the banks totaled NIS 392 million, compared with NIS 372 million in 2009, an increase of 5.4%.

The ratio of expenses to income before payments to banks reached 51.4%, compared with 52.3% in 2009.

Operating profit before taxes totaled NIS 254 million, compared with NIS 202 million in 2009, an increase of 25.7% (for an explanation of this increase, see the explanation regarding net profit).

The return of operating profit before taxes on average equity reached 22.2%, compared with 20.7% in 2009.

The provision for taxes on operating profit totaled NIS 68 million, compared with NIS 55 million in 2009. The effective rate of tax out of total operating profit before taxes reached 26.8%, compared with 27.2% in 2009.

Developments in Balance-Sheet Items in the Consolidated Report

The balance sheet as of December 31, 2010 totaled NIS 12,493 million, compared with NIS 11,621 million on December 31, 2009.

Developments in the principal balance-sheet items:

	December 31			
	2010	**2009**	**Change**	
	NIS millions		**NIS millions**	**%**
Total balance sheet	12,493	11,621	872	7.5
Debtors in respect of credit-card activity	11,865	10,515	1,350	12.8
Cash on hand and deposits with banks	92	493	(401)	(81.3)
Securities	74	178	(104)	(58.4)
Creditors in respect of credit-card activity	10,819	10,274	545	5.3
Shareholders' equity	1,277	1,075	202	18.8

Debtors in respect of credit-card activity totaled NIS 11,865 million on December 31, 2010, compared with NIS 10,515 million at the end of 2009. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the cards issued by the Company, and an increase in credit extended to cardholders and merchants.

Cash on hand and deposits with banks totaled NIS 92 million on December 31, 2010, compared with NIS 493 million at the end of 2009. The decrease mainly resulted from an increase in the amount of credit granted by the Company to cardholders and merchants, and from the acquisition of Tzameret Mimunim, in the amount of NIS 71.4 million.

Securities totaled NIS 74 million on December 31, 2010, compared with NIS 178 million at the end of 2009. The decrease in comparison to the end of 2009 mainly resulted from sales of bonds held by the Company.

Buildings and equipment totaled NIS 268 million on December 31, 2010, compared with NIS 254 million at the end of 2009. The increase mainly resulted from investments in computer systems and software.

Creditors in respect of credit-card activity totaled NIS 10,819 million on December 31, 2010, compared with NIS 10,274 million at the end of 2009. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet repaid at the balance-sheet date. The change relative to the end of 2009 results from offsetting of an inter-company balance in respect of a company consolidated for the first time.

Shareholders' equity totaled NIS 1,277 million on December 31, 2010, compared with NIS 1,075 million at the end of 2009. The increase in comparison to the end of 2009 mainly resulted from net profit.

The ratio of shareholders' equity to the balance sheet reached 10.2% on December 31, 2010, compared with 9.3% on December 31, 2009.

The ratio of capital to risk-adjusted assets under the Basel II directives reached 13.9% on December 31, 2010, compared with 12.6% 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%.

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

A credit-card company issues credit cards to its customers (credit-card holders). Credit-card holders use the card as a means of payment to merchants, and the merchants provide the credit-card holders with goods or services. Customers join the credit-card system by signing a credit-card contract with the issuer and receiving the credit card. Credit-card holders make a commitment to repay amounts owed arising from their use of the credit card. The issuer collects various fees from the cardholder and interchange fees or merchant fees from the 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, Europay, 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 are distributed to owners of accounts at banks with which the Company and Europay have agreements, including Bank Hapoalim (the parent company), 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. 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, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) the image of the Company's private brand, Isracard, as a leading brand in Israel; (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 with the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service; (6) an operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency 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 an 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. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Products and Services

As noted above, the Company issues and operates Isracard credit cards (a private brand) and MasterCard cards. The cards are issued both as bank cards and as non-bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; loans for specific purposes for private and business customers; fuel cards and refueling devices; gift certificates and cards; rechargeable cards; 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.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment. The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by acquirers to issuers in respect of transactions executed using credit cards issued by the issuer and acquired by the acquirer; (2) card fees – payments collected from cardholders according to a fee list, varying based on the type of card and on various promotional campaigns and exemptions; (3) deferred-debit fees – fees collected from cardholders in respect of transactions in which the merchant spreads the amount of the purchase into installments, or when the merchant defers the charge for the transaction beyond the nearest debit date; and (4) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS. The main expenses associated with this segment are expenses for customer-club marketing, advertising, and management; the loyalty program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 21 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

The various agreements of the Company and Europay 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/Europay, and to recommend the customer's registration for the card arrangement to the Company/Europay. As a rule, each such bank is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank. The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

Contractual engagement with Bank Yahav – In January 2009, the existing agreements of the Company and Europay 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 Europay to customers of Bank Yahav. The agreements were updated during 2010, with immaterial changes.

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors, such as 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 rate of the volume of transactions executed using the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2010.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, operation of the loyalty program, 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, the Company's website, and more. See also risk factors with regard to "Cessation of Activity of a Bank in Israel" and "Competition."

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the 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 of the Institute of Certified Public Accountants in Israel, cards of retail chains, and more.

The Company operates a website at the address: www.isracard.co.il, designed for cardholders, among others. The website provides information, including about products and services offered to cardholders, the Company's rates, special offers, and benefits.

As part of an enhancement of its communication with its customers and enrichment of the range of benefits offered to them, the Company has launched a new interactive website. The website is based on a unique, innovative model in which hundreds of benefits, updated daily, are offered to customers. The website is based on a search engine that enables customers to receive benefits according to their selected areas of interest. The goal of the website is to create a community of customers with which the Company can communicate. In less than a year, approximately 150,000 customers have registered for the website and have used over 260,000 benefits. The website is continually being upgraded. Tools such as the “hot deal,” “weekend candy,” and recently the “deal of the day” have been added, making the website the primary platform for activity with customers and merchants. Customers’ response to the marketing offers has been unprecedented. The website is planned to become part of the sales tools used in key marketing activities related to non-bank credit, sales of cards, and joining clubs.

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, Europay, and Poalim Express for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). In March 2009, the Company, Europay, 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 it 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, the Company 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.

Contractual engagement in Life Style Club agreement – In December 2008, the Company, Super Pharm (Israel) Ltd. (“**Super Pharm**”), and Alonyal Ltd. ("**Alonyal**") entered into a shareholders’ agreement in which the company Life Style Customer Loyalty Club Ltd. (the “**Life**

Style Company”) was established, and the entire existing activity of the Life Style Club was assigned to it; in addition, the company Life Style Financing Ltd. (the “**Financing Company**”) was established.

The Life Style Company and the Financing Company are held as follows: Super Pharm – approximately 81%; the Company – 15%; Alonyal – approximately 4%. The aforesaid agreement establishes arrangements among the parties with regard to their ownership of the Life Style Company and the Financing Company. In addition, as part of the agreements among the parties, a contractual engagement was formed between the Company and the Life Style Company for the issuance and operation of new Life Style club cards. This agreement is in effect for 6.5 years from its inception date, and can be extended subject to its terms. The aforesaid agreement includes, among other matters, arrangements for payment and account settlement among the parties, the issuance process of the new cards, operational matters, benefits and rights of club members, and marketing.

Within the contractual engagement between the Company and the Life Style Club, a campaign for holders of the new Life Style card was agreed upon, in which cardholders will be awarded a monetary benefit according to the volume of usage and the terms of the campaign. An adequate provision was recorded in the financial statements. For further details, see Note 18A(1).

Competition

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

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) reinforcement of the Company's status and image through advertising, benefits, and various offers for cardholders; (3) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (4) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the Company and Europay are the leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled, experienced human capital; (5) the Company has a long-term agreement with Bank Hapoalim for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

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

The Credit-Card Acquiring Segment

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 executed 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, Europay, 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. In addition to acquiring services, it offers merchants various financial services, such as loans, advance payments, sales-slip discounting, and marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

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 the Company 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 targeted sales and marketing system; (6) provision of related services to merchants, including various marketing, financial, and operational services; (7) operational efficiency and utilization of size advantage; (8) accumulated experience in the area of acquiring of credit cards; and (9) a robust capital structure and available sources of financing

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card acquiring services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license from international organizations to 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. Bank credit, discounting, and credit from additional non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Products and Services

As an acquirer, the Company has agreements with various merchants, under which it acquires sales slips of transactions, including domestic transactions and transactions by incoming tourists, executed using credit cards (issued by the Company and/or by other credit-card companies) with merchants with which the Company has entered into acquiring agreements. In consideration for the acquiring services, the Company mainly collects a merchant fee.

In addition to acquiring services, the Company offers flexible crediting dates and options for payment in installments. The Company also offers marketing and operational services, such as the incorporation of coupons and personal messages in debit statements for cardholders, sales-promotion campaigns, information regarding credits of the merchant, business cards, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures. In addition, the Company offers acquiring of gift certificates and gift cards which it issues.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants were allocated the Acquiring Segment. The main income items in the Acquiring Segment are fees from merchants, net of interchange fees, which are allocated to the Issuance Segment, as well as net financing income attributed to the segment. The main expenses associated with the Acquiring Segment include expenses for recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 21 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries.

As of the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2010.

Marketing and Sales

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

The Company's key objectives in its marketing activity in this area are: (1) to retain merchants as customers by strengthening its ties with the merchants and providing marketing, financial, and operational services, including the incorporation of coupons and personal messages in debit statements for cardholders, 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 the Company's image; and (3) to recruit new merchants and expand the Company's operations through new business activities, including credit granting.

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

Competition

The credit-card 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 Europay are the leaders in this area in Israel. As of the date of the report, the Company is the only company to acquire, in Israel, transactions in Isracard cards, a private brand owned by the Company. For further details on this matter, see the section “Restrictions and Supervision of the Company,” below. 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, such as flexible crediting dates and joint sales-promotion campaigns for the credit-card company and the merchant.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to each merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems. The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the acquiring service provider, and in formulating the overall perception of the Company by merchants.

Positive factors affecting the Company's competitive standing include the following, among others: (1) a marketing, sales, and service system specializing in providing suitable solutions to merchants while maintaining regular contact with them, and containing professional, skilled, experienced human capital; (2) a brand with presence and power; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services; and (5) 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."

The Financing Segment

General

In the last few years, credit-card companies have entered the financing business. The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers’ needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability.

The Financing Segment comprises two sub-groups divided according to the nature of the customer's activity: consumer credit for private customers, usually with relatively low volumes of financial activity; and corporate credit for businesses, whose credit needs are usually related to financing of their business operations. The types of credit products offered to these two groups naturally differ.

Consumer credit activity is primarily conducted through proactive marketing and advertising, offering the range of credit products for private customers. Products such as financing of vehicle purchases are usually marketed by related companies and/or through collaborations with other companies.

Corporate credit activity is mainly conducted by commercial representatives who meet individually with clients. Activities in this sector also include credit for transactions such as discounting and factoring, which are also performed through the Company's subsidiaries.

Legislative Restrictions, Regulation, and Special Constraints Applicable to the Segment

The Company operates under laws, standards, and regulatory directives applicable to the banking system and to credit-card companies in Israel, such as directives of the Supervisor of Banks, the Antitrust Commissioner, and more. Several such directives, which have (or had at the time of publication) material implications for the segment, are listed below.

The following limits apply to the volume of credit pursuant to the Proper Conduct of Banking Business Directives:

Transactions with related persons – Pursuant to Proper Conduct of Banking Business Directive No. 312, "Business of a Banking (Auxiliary) Corporation with Related Persons), among other matters, a limit applies to the Company such that the total "indebtedness to a banking (auxiliary) corporation," as this term is defined in the aforesaid directive, excluding certain amounts, of all "related persons" of the Company, as defined in the directive, shall not exceed a total equal to 10% of the capital of the auxiliary banking corporation (as defined in Proper Conduct of Banking Business Directive No. 311).

Limit on indebtedness of borrowers and borrower groups – Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and of Borrower Groups," among other matters, a limit applies to the Company such that the rate of the "indebtedness" of a "borrower" and of a "borrower group," as defined in the directive, after deducting the deductible amounts from the indebtedness, in accordance with the directive, shall not exceed 15% and 30% respectively of the shareholders' equity of the Company, calculated according to Proper Conduct of Banking Business Directive No. 311, "Minimum Capital Ratio."

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, from time to time the Board of Directors of the Company establishes limits on the credit concentration in certain sectors of the economy, and a limit on the maximum exposure to a single borrower, and according to the credit risk of the borrower, as expressed in the internal rating system.

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

Critical success factors in the operating segment – In the opinion of the Company, the main critical success factors in the Financing Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) matching of a relevant product offering to customers; (2) available sources of financing and the ability to raise capital; (3) management and development of a retail system that is available and accessible to customers, with an emphasis on the direct channels, in order to improve service in the areas of professional expertise, response times, etc.; (4) a system of risk management and credit controls; (5) an adequate system of controls in order to reduce risks; (6) collaborations with various business partners in the Israeli economy in the provision of financial services; (7) experienced, high-quality human capital; and (8) an operational system including advanced information systems, technologies, and infrastructures.

Key entry barriers in the operating segment – The key entry barriers in the Financing Segment are: (1) the need for financial resources, sources of financing, experience, and extensive knowledge in order to perform the required investments in the operational system, financing, advertising, and marketing, and extensive investments in technological infrastructures; (2) development and management of a credit rating and control system, and the collection of information allowing a risk level to be assigned to each customer; (3) 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; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

Substitutes for the products of the operating segment – Credit services and loans provided by various parties in the economy, either through banks or through other financial operators, serve as substitutes for the credit and financing services provided by the Company.

Products and Services

The Company offers financial services to merchants, mainly including loans, discounting of credit-card sales slips, advance payments, credit facilities for business cards, purchasing cads and B2B, and factoring services. In addition, the Company offers credit to private customers, including revolving credit (More cards), which allow cardholders to determine the repayment terms; special-purpose loans; various credit plans based on the Isracredit program; various general-purpose loans based on credit-card credit facilities; and loans that do not require a card, all at a high level of service.

Segmentation of Income from Products and Services

All income and expenses attributed to the interest-bearing credit activity of the Company were assigned to the Financing Segment, including discounting, advance payments, factoring, revolving credit (More), and loans of various types. For details regarding the segmentation of income from transactions of the Financing Segment, see Note 22 to the Financial Statements.

Customers

The Company's customers in the Financing Segment include numerous merchants and private customers. The group of customers of this segment in the consumer sector mostly consists of households with low to medium net worth. Customers are segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for private customers. The group of customers of this segment in the business sector consists of merchants in a broad range of industries who use the Company's acquiring services, as well as non-acquiring customers who use one of the various types of corporate cards of the Company. These customers are also segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for business customers.

Marketing and Sales

Sales and marketing activities of the Company in the Financial Segment are based on the principle of focusing on the needs of merchants and on the changing needs of private cardholding and non-cardholding customers. The Company operates on several levels: joint activities with customer clubs and business partners in granting credit, including marketing and sales promotion, among other means, through large-scale marketing campaigns, advertising in newspapers, on television, on the radio, and on the Company's website, as part of its commercial activity with the merchants.

Competition

The Financing Segment is characterized by a high level of competition, encompassing banking institutions and other financial entities, such as insurance companies, other credit-card companies, factoring companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required financing, and speed of response.

Seasonality

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

The Other Segment

This segment includes all of the Company's other activities that do not belong to the Issuance Segment, the Acquiring Segment, and/or the Financing Segment, each of which does not constitute a reportable segment. This includes the credit-card system operation services which the Company provides to subsidiaries of Bank Hapoalim in relation to credit cards which those companies are licensed to issue and acquire (Poalim Express, which issues and acquires American Express cards; and Aminit, which issues and acquires Visa cards), and the activity of Isracard Nechasim. In 2008, this segment also included the nonrecurring income from the sale of shares of MC.

Financial Information on the Company's Operating Segments – Consolidated

Quantitative Data on Operating Segments

Reported amounts
In NIS millions

	For the year ended December 31, 2010				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	265	928	-	1	1,194
Intersegmental fees	727	(727)	-	-	-
Total	**992**	**201**	**-**	**1**	**1,194**
Profit from financing activity before provision for doubtful debts	27	5	66	1	99
Other income	3	2	(2)	32	35
Total income	**1,022**	**208**	**64**	**34**	**1,328**
Expenses					
Provision for doubtful debts	6	3	27	2	38
Operations	349	104	9	7	469
Sales and marketing	70	31	5	3	109
General and administrative	43	19	3	1	66
Payments to banks	388	4	-	-	392
Total expenses	**856**	**161**	**44**	**13**	**1,074**
Operating profit before taxes	**166**	**47**	**20**	**21**	**254**
Provision for taxes on operating profit	44	13	5	6	68
Operating profit after taxes	**122**	**34**	**15**	**15**	**186**
The Company's share in profits of affiliated companies	-	-	*-	-	*-
Minority interests' share in net operating profits after taxes of consolidated companies	-	-	(1)	-	(1)
Net profit	**122**	**34**	**14**	**15**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	267	11,718
Of which: investments in affiliated companies	-	-	-	2	2
Average balance of liabilities	420	9,835	197	122	10,574
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amounts lower than NIS 0.5 million.

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

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2009				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	249	855	-	1	1,105
Intersegmental fees	717	(717)	-	-	-
Total	**966**	**138**	**-**	**1**	**1,105**
Profit from financing activity before provision for doubtful debts	20	9	39	*-	68
Other income	3	3	(2)	26	30
Total income	**989**	**150**	**37**	**27**	**1,203**
Expenses					
Provision for doubtful debts	5	*-	23	1	29
Operations	293	88	4	4	389
Sales and marketing	**111	26	2	3	142
General and administrative	45	22	1	1	69
Payments to banks	**371	1	-	-	372
Total expenses	**825**	**137**	**30**	**9**	**1,001**
Operating profit before taxes	**164**	**13**	**7**	**18**	**202**
Provision for taxes on operating profit	**45	**3	2	5	55
Operating profit after taxes	**119**	**10**	**5**	**13**	**147**
The Company's share in profits of affiliated companies	-	-	-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	-	-	**1**	**-**	**1**
Net profit	**119**	**10**	**6**	**13**	**148**
Return on equity (percent net profit out of average capital)	12.3	1.0	0.6	1.3	15.2
Average balance of assets	8,453	1,202	841	457	10,953
Of which: investments in affiliated companies	-	-	-	19	19
Average balance of liabilities	356	9,561	3	57	9,977
Average balance of risk-adjusted assets	2,844	452	1,190	155	4,641

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amounts lower than NIS 0.5 million.

** Restated; see Note 1DD.

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

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2008				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	231	860	-	1	1,092
Intersegmental fees	730	(730)	-	-	-
Total	**961**	**130**	**-**	**1**	**1,092**
Profit from financing activity before provision for doubtful debts	27	23	22	2	74
Other income(2)	-	-	1	47	48
Total income	**988**	**153**	**23**	**50**	**1,214**
Expenses					
Provision for doubtful debts	-	1	13	-	14
Operations	262	79	3	7	351
Sales and marketing	**108	31	1	5	145
General and administrative	36	14	-	1	51
Payments to banks	**398	18	-	-	416
Total expenses	**804**	**143**	**17**	**13**	**977**
Operating profit before taxes	**184**	**10**	**6**	**37**	**237**
Provision for taxes on operating profit	**50	3	1	10	64
Operating profit after taxes	**134**	**7**	**5**	**27**	**173**
The Company's share in profits of affiliated companies	-	-	-	*-	*-
Net profit	**134**	**7**	**5**	**27**	**173**
Return on equity (percent net profit out of average capital)	15.6	0.8	0.6	3.2	20.2
Average balance of assets**	8,492	1,482	530	207	10,711
Of which: investments in affiliated companies	-	-	-	21	21
Average balance of liabilities**	367	9,456	1	49	9,873
Average balance of risk-adjusted assets**	1,906	614	487	180	3,187

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Includes non-recurring income in respect of the sale of shares of MC in the amount of NIS 26 million.

* Amounts lower than NIS 0.5 million.

** Restated; see Note 1DD.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 122 million, compared with NIS 119 million in 2009, an increase of 2.5%.

Average net return on equity reached 10.7%, compared with 12.3% in 2009.

Developments in Income and Expenses

The segment's income totaled NIS 1,022 million, compared with NIS 989 million in 2009, an increase of 3.3%.

Income from fees totaled NIS 992 million, compared with NIS 966 million in 2009, an increase of 2.7%.

Profit from financing activity before provision for doubtful debts totaled NIS 27 million, compared with NIS 20 million in 2009, an increase of 35%.

The segment's expenses before payments to banks totaled NIS 468 million, compared with NIS 454 million in 2009, an increase of 3.1%.

The segment's expenses including payments to banks totaled NIS 856 million, compared with NIS 825 million in 2009, an increase of 3.8%.

The provision for doubtful debts totaled NIS 6 million, compared with NIS 5 million in 2009, an increase of 20%.

Operating expenses totaled NIS 349 million, compared with NIS 293 million in 2009, an increase of 19.1%. The increase resulted from the following factors:

- An increase in salary and related expenses, mainly due to hiring of new employees in the areas of customer service and information systems.
- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.
- An increase in expenses on production and delivery, as a result of the growth in the Company's activity.

Sales and marketing expenses totaled NIS 70 million, compared with NIS 111 million in 2009, a decrease of 36.9%. See Note 1DD for an explanation of the restatement of the provision for gift offers (the loyalty program) and with regard to the Company's announcement of the extension of this offer through May 2011 only.

General and administrative expenses totaled NIS 43 million, compared with NIS 45 million in 2009, a decrease of 4.4%.

Payments to banks under agreements with the banks totaled NIS 388 million, compared with NIS 371 million in 2009, an increase of 4.6%.

The ratio of expenses to income in the segment, before payments to banks, reached 45.8%, compared with 45.9% in 2009.

The segment's operating profit before taxes totaled NIS 166 million, compared with NIS 164 million in 2009, an increase of 1.2%.

The provision for taxes on operating profit in the segment totaled NIS 44 million, compared with NIS 45 million in 2009.

Profit and Profitability – Acquiring Segment

The segment's net profit totaled NIS 34 million, compared with NIS 10 million in 2009, an increase of 240%.

Average net return on equity reached 3.0%, compared with 1.0% in 2009.

Developments in Income and Expenses

The segment's income totaled NIS 208 million, compared with NIS 150 million in 2009, an increase of 38.7%.

Income from fees totaled NIS 201 million, compared with NIS 138 million in 2009, an increase of 45.7%.

Profit from financing activity before provision for doubtful debts totaled NIS 5 million, compared with NIS 9 million in 2009, a decrease of 44.4%.

The segment's expenses before payments to banks totaled NIS 157 million, compared with NIS 136 million in 2009, an increase of 15.4%.

The segment's expenses including payments to banks totaled NIS 161 million, compared with NIS 137 million in 2009, an increase of 17.5%.

The provision for doubtful debts totaled NIS 3 million, compared with less than NIS 0.5 million in 2009.

Operating expenses totaled NIS 104 million, compared with NIS 88 million in 2009, an increase of 18.2%. The increase resulted from the following factors:

- An increase in salary and related expenses, mainly due to hiring of new employees in the areas of customer service and information systems.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

Sales and marketing expenses totaled NIS 31 million, compared with NIS 26 million in 2009, an increase of 19.2%.

General and administrative expenses totaled NIS 19 million, compared with NIS 22 million in 2009, a decrease of 13.6%.

Payments to banks under agreements with the banks totaled NIS 4 million, compared with NIS 1 million in 2009, an increase of 300%.

The ratio of expenses to income in the segment, before payments to banks, reached 75.5%, compared with 90.7% in 2009.

The segment's operating profit before taxes totaled NIS 47 million, compared with NIS 13 million in 2009.

The provision for taxes on operating profit in the segment totaled NIS 13 million, compared with NIS 3 million in 2009.

Profit and Profitability – Financing Segment

The segment’s net profit totaled NIS 14 million, compared with NIS 6 million in 2009, an increase of 133%. The increase mainly resulted from a subsidiary consolidated for the first time in 2010, and from an increase in the Company’s credit portfolio.

Average net return on equity reached 1.2%, compared with 0.6% in 2009.

Developments in Income and Expenses

The segment's income totaled NIS 64 million, compared with NIS 37 million in 2009, an increase of 73%. The increase mainly resulted from a subsidiary consolidated for the first time in 2009, and from an increase in the Company’s credit portfolio.

Profit from financing activity before provision for doubtful debts totaled NIS 66 million, compared with NIS 39 million in 2009, an increase of 69.2%.

The segment's expenses totaled NIS 44 million, compared with NIS 30 million in 2009, an increase of 46.7%.

The provision for doubtful debts totaled NIS 27 million, compared with NIS 23 million in 2009, an increase of 17.4%.

Operating expenses totaled NIS 9 million, compared with NIS 4 million in 2009, an increase of 125%.

Sales and marketing expenses totaled NIS 5 million, compared with NIS 2 million in 2009, an increase of 150%.

General and administrative expenses totaled NIS 3 million, compared with NIS 1 million in 2009, an increase of 200%.

The ratio of expenses to income in the segment reached 68.8%, compared with 81.1% in 2009.

The segment's operating profit before taxes totaled NIS 20 million, compared with NIS 7 million in 2009.

The provision for taxes on operating profit in the segment totaled NIS 5 million, compared with NIS 2 million in 2009.

Profit and Profitability – Other Segment

The segment's net profit totaled NIS 15 million, compared with NIS 13 million in 2009, an increase of 15.4%.

Average net return on equity in the segment reached 1.3%, similar to 2009.

Developments in Income and Expenses

The segment's income totaled NIS 34 million, compared with NIS 27 million in 2009, an increase of 25.9%.

Operating and other income totaled NIS 32 million, compared with NIS 26 million in 2009, an increase of 23.1%.

Profit from financing activity before provision for doubtful debts totaled NIS 1 million, compared with less than NIS 0.5 million in 2009.

The segment's expenses totaled NIS 13 million, compared with NIS 9 million in 2009.

The ratio of expenses to income in the segment reached 38.2%, compared with 33.3% in 2009.

The segment's operating profit before taxes totaled NIS 21 million, compared with NIS 18 million in 2009.

The provision for taxes on operating profit in the segment totaled NIS 6 million, compared with NIS 5 million in 2009.

Fixed Assets and Facilities

The Company's headquarters are located in an office building on Hamasger Street, Tel Aviv. As noted, this office building is owned by Isracard Nechasim and N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts. Isracard Nechasim rents most of the property to the Company, and the remainder of the property to Bank Hapoalim and to a subsidiary of Bank Hapoalim. In addition, the Company rents additional offices for its routine needs, offices used as backup sites for its operations, and regional offices mainly used as offices of sales representatives.

The Company's material fixed assets also include computers, information systems and infrastructures, communications equipment, and peripheral equipment used in the areas of credit-card issuance and acquiring. These systems include mainframe computers (including for backup), open systems, hardware, and software used by the Company in its routine operations in the areas of issuance and acquiring and in operating credit-card arrangements. These systems are in line with the technical specifications defined by the international organizations.

Intangible Assets

The Company owns the trademark "Isracard." In addition, the Company has rights to several trademarks related to credit cards which it issues, acquires, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards; imprints, images, or logos appearing on credit cards; the Company's publications; documents used as means of payment and collection; etc.

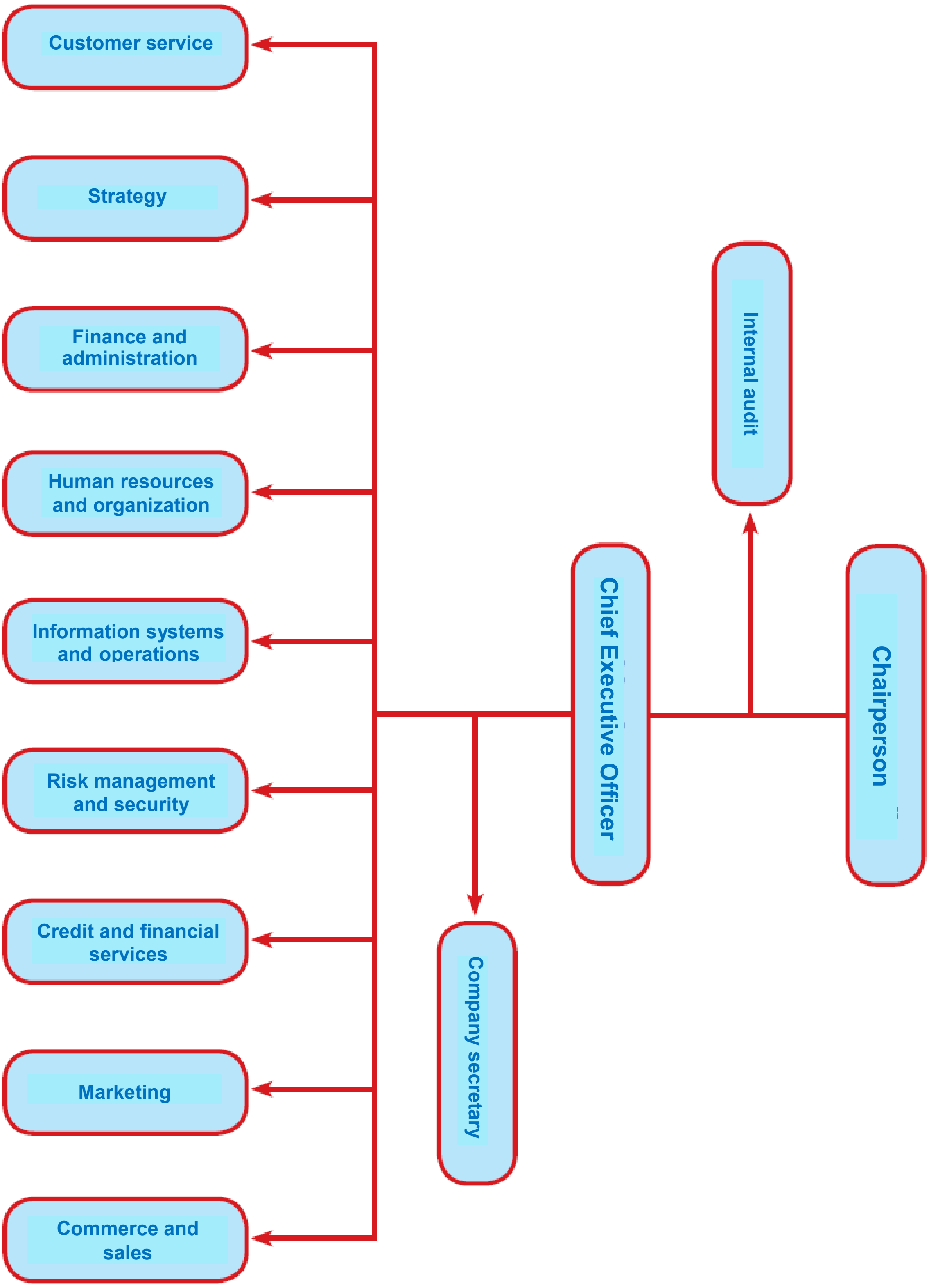
In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 5741-1981 and the regulations enacted under that law, including the duty to register a database (as defined in the Protection of Privacy Law) in accordance with the requirements of the law and in accordance with its agreements.

Human Capital

Organizational Structure

The organizational structure of the Company consists of nine functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains divisions, subdivisions, and sections, according to the nature of its activity, which report to the head of the unit.

List of the Company's units:



Personnel

Total employee positions at the Company include:

(1) Employees employed under personal employment contracts signed with the Company or with Europay. Also see the "Other Matters" section below.

(2) Employees who are part of the manpower of Bank Hapoalim, on loan to the Company – in addition to labor laws and expansion orders, the terms of employment of the majority of the aforesaid employees on loan are regularized in the Labor Constitution for Workers of Histadrut Institutions, in collective agreements, and in various agreements concerning wage terms and other benefits.

(3) External personnel.

The number of employee positions decreased by 142 in 2010, compared to the number of positions at the end of 2009. Most of the decrease occurred in employee positions in the areas of customer service and operations.

	2010	2009*
Average positions on a monthly basis	1,293	1,274
Total positions at year end	1,265	1,402

* Restated.

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

During the year, a thinking process was carried out with regard to improvement of the efficiency of work processes at the Group, with an emphasis on improved customer service; this process led to the reduction in the number of positions. Concurrently, numerous measures were taken in response to the changing needs expressed by the various departments, according to the key projects in the Group, with changes and adjustments made in order to provide efficient, high-quality solutions.

Trends in Human Resources

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

In 2010, the Company continued to maintain this policy, through:

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

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

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

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

5. Support and guidance for the process of consolidation of call centers, including adaptation of recruitment and training processes, and guidance of the change with support for managers and advice on communication of the messages related to the change; development of a computerized learning environment and improved efficiency of the training program.

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

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

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

9. Employee unions – see the section "Other Matters," below.

Ethical Code

During 2010, the Isracard Group celebrated the introduction of its ethical code, which was formulated and written in a collaborative process with the Group's employees and executives. The code reflects the core values of the Group and the proper course of action which is its aim in its relationships with all of its stakeholders. Various ethics institutions were established during the course of the year, including the ethics supervisor and an ethics committee responsible for overseeing the continued absorption of the code and discussing ethical issues raised within the organization.

Professional Training

Key objectives in 2010 were to support and aid the promotion of the business goals and objectives of the organization, employee and executive development, and improvement of the professional expertise and quality of service of service representatives. During the year, many training sessions were conducted for target groups to support the implementation of new products and services, changes in existing services, and technological changes.

Activity focused on training and instruction for employees and executives in various roles within the Company, absorption of a winning service culture – the customer as a guest, increasing professional knowledge, targeted training for various employee groups according to area of activity, and encouragement of employees to acquire higher education.

Special emphasis was placed in 2010 on support for changes, mainly at the call centers, including the development of a modular gradual course for service representative training, conversion courses for various knowledge areas, workshops on focusing the service and sales orientation, and a development program for team leaders designed to impart advanced management skills and support employee retention.

Instilling a Culture of Surveys

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

Occupational Stability

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

The Company won first place in the Israel Management Center's competition for "customer service as a strategic partner" and second place for customer service employee retention and excellence in service.

Promotion of Diversity

The Group has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2010, we expanded diversity while creating a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, concurrently learning to be open to others and to those who are different from us, and to create a more tolerant community of employees, with respect and appreciation for others.

Community Involvement and Contribution

As a leader in its field in Israel, Isracard is committed to giving back to the community, with a special emphasis on supporting disadvantaged groups and those in need in Israeli society, serving Israel's youth, and empowering women. The Company continually strives to increase its employees' awareness of community involvement and encourages them to volunteer, with the philosophy that the added value of giving back to the community is a reinforced sense of pride and cohesion of employees and stronger identification with the Company.

Contribution to the community takes the form of a wide range of community involvement activities and monetary donations sponsored by the Company, as well as volunteering activities by employees.

Notable Contributions to the Community

Education and Advancement of Youth

Investment in activities that advance youth and support youth well-being in various locations throughout Israel; support for technology implementation programs allowing the use of innovative learning methods for the creation of an advanced, optimal teaching and learning environment accessible to all students and teachers in several schools in peripheral regions; support for programs for youth education and promotion; aid for students preparing for matriculation examinations; a computer class at the Company's training center.

Donations and Aid for Children in Need

Caring for children in need from families living in poverty; aid for school supplies and food products; preparing meals for students; packing food baskets; distributing school backpacks; and more.

Health and Advancement of Children at Risk

Sponsorships for various community activities and funding of cultural events to support organizations operating in the areas of health care and advancement of children at risk.

"Adopt a Soldier"

This is the fifth year in which we have adopted the Nahal Patrol Regiment, as part of the "Adopt a Soldier" project, and provided ongoing support for the well-being of the regiment and its soldiers. In addition, the Group supports Beit Kobi – financing of housing for "lone soldiers" (IDF soldiers without parents living in Israel).

Remembrance

Support for Beit Lohamei Hagetaot (Ghetto Fighters' House Museum), through funding of transportation for visits to the museum for children from peripheral regions, and support for a theater where students present stories of Holocaust survivors. Group employees are exposed to and participate in various activities, including tours of Yad Vashem, volunteering with Holocaust survivors, and more.

Empowerment of Women

The Group supports and aids various foundations engaged in the empowerment of women, and is committed to the advancement of women in Israel.

Annual contributions by employees and by the Management of the Company to activities related to giving back to the community are performed through the "Matan – Your Way to Give" foundation.

Service Providers

The Company's main service providers include:

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

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

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

Taxation

Reduction of Tax Rates

On July 25, 2005, the Knesset passed the Income Tax Ordinance Amendment Law (No. 147), 5765-2005, which among other matters set 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), 5769-2009, 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.

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and acquiring charge cards, operating a charge-card system, and extending credit, laws and directives related to its activity in these areas apply to the Company. These laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of 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 credit-card companies.

In addition, the Company is an "auxiliary corporation" under the Banking Law (Licensing). As a credit-card company and as an auxiliary corporation, a further system of rules, orders, and regulations applies to the Company, including: the Banking Law (Licensing); the Bank of Israel Law, 5714-1954; the Banking Ordinance; the Banking Law (Customer Service), 5741-1981 and the derived secondary legislation; and a system of directives, guidelines, and position statements of the Supervisor of Banks at the Bank of Israel.

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

In addition to the laws relevant to the Company's activity as an auxiliary corporation and as a credit-card company, various items of legislation apply to the Company which regularize its routine operations, including the Restrictive Trade Practices Law, 5748-1988 (the "Restrictive Trade Practices Law"); the Interest Law, 5717-1957; the Agency Law, 5725-1965; the Control of Prices of Commodities and Services Law, 5718-1957; the Control of Commodities and Services Law, 5756-1996; and the Protection of Privacy Law, 5741-1981 and the subsequent regulations.

Antitrust Issues

In May 2005, the Antitrust Commissioner (the "Commissioner") declared the Company a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal of the declaration with the court. In any case, an agreement exists with the Commissioner according to which the Commissioner's aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below.

In August 2005, the Israel Antitrust Authority notified the Company that the Commissioner intended to impose directives upon it under Section 30 of the Restrictive Trade Practices Law. The main points of the directives, of which the Company received a draft, are as follows:

A. A directive instructing the Company to allow local acquiring of MasterCard credit cards by additional acquirers, as well as of Isracard cards (the brand owned by the Company), subject to compliance with the license terms specified by the Commissioner, as described below.

B. A directive instructing the Company to sign a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of the aforesaid cards, under temporary interchange-fee terms (the fee paid by acquirers of credit-card transactions to the credit-card issuers), as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards, and for acquiring by the Company of Visa cards issued by the other acquirers (the "Domestic Agreement").

C. A directive instructing the Company to implement a common technical interface for the execution of local acquiring.

The terms stipulated by the Commissioner for the granting of a license to acquire Isracard cards include the Company's right to receive monetary remuneration for the license, and the obligation of the other acquirers who apply for a license for such acquiring to issue a minimum number of Isracard cards.

Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner's declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below, and consequently no directives will be issued.

Following talks held between the Company, Aminit, which receives operational services from the Company, and the credit-card companies Leumi Card and CAL (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (the "**Arrangement**"), with the Commissioner's support, under which the Credit-Card Companies will enter into a detailed Domestic Agreement among themselves regarding full local acquiring in Israel, including the operation of an appropriate technical interface (the "**Technical Interface**"), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a restrictive arrangement from the Antitrust Tribunal.

The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until August 15, 2011.

The terms of the Arrangement include, *inter alia*: the establishment of interchange-fee rates, which gradually decrease during the term of the Arrangement; a commitment by the parties to petition the Tribunal for approval of an interchange fee for the period following the end of the Arrangement, should the parties wish to continue cross-acquiring; the obligation of the Company, under certain conditions, to set identical fees for the same merchant for acquiring transactions in Isracard and MasterCard cards; and various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into acquiring arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or acquiring with any of the Credit-Card Companies.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in acquiring Isracard and MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the Arrangement by the Tribunal and the execution of cross-acquiring of transactions through the Technical Interface.

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it gave a verdict on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January 2009. The expert was to have continued to formulate his final opinion, but before he had completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be barred from completing the opinion. In May 2010, the Commissioner announced her intention of appointing the chief economist of the Antitrust Authority as the new expert, replacing the previous expert, Dr. Bachar. On August 12, 2010, the Tribunal ruled that Dr. Parizat, chief economist of the Antitrust Authority, would be appointed to complete the opinion of Dr. Bachar. Dr. Parizat was required to submit his opinion by March 15, 2011.

The Company cannot estimate whether or when the request for permanent approval of the Arrangement will be granted.

The Company signed the Domestic Agreement in May 2007.

In June 2007, the Credit-Card Companies began direct acquiring in Israel, through the Technical Interface, of transactions executed using MasterCard and Visa credit cards, according to the credit cards handled by each company.

The Company estimates that when directives are issued on the basis of the declaration of the Company as a monopoly, such declaration will affect the course of action of the Company and will have a material adverse effect on the Company's future financial results; however, the Company cannot estimate the extent of this effect.

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, 5746-1986. 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. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 2 million. 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 February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements for cardholders. The Company has filed its response to the petition for certification. The Company has strong arguments both with regard to the petition for certification of the class action and with regard to the substance of the claim. According to the Company's estimates, based on the opinion of its legal advisors, given that a question of interpretation is involved, it is possible that the petition may be approved, but the probability that the petition will be denied is greater than the probability of approval.

3. The Board of Directors of the Company has approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, and Tzameret Mimunim) in respect of all of their liabilities, with no amount limit, pursuant to Proper Conduct of Banking Business Directive No. 313 (Limits on the Indebtedness of a

Sole Borrower) and Proper Conduct of Banking Business Directives No. 201-211 (Basel II). In addition, the Board of Directors has approved the granting of a letter of indemnification to Global, in respect of certain balance-sheet assets, as specified in the letter of indemnification.

4. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, 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. Europay 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 440 million).

Objectives and Business Strategy

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

1. Maintaining the level of revenues and profitability and generating value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the club strategy.
5. Expansion in the area of credit and financing for private and business customers.
6. Maintaining differentiation and uniqueness of the private brand Isracard.
7. Maintaining the Company's image and proprietary standing, and continued positioning as a market leader.
8. Extending collaborations with merchants.
9. Ongoing improvement in quality of service to banks, clubs, merchants, and cardholders.
10. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.

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

12. High-quality systems of risk management, credit control, and fraud prevention.

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

Risk Management Policy

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

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 Officer; members of the committee include controllers from all departments of the Company and other officers such as the Compliance Officer, the officer responsible for money-laundering prevention, and the Head of Information Security.

As part of the management and control of operational risks, and as part of the compliance with Proper Conduct of Banking Business Directives No. 201-211 (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.
- Emergency procedures at the Company updated.

Market and Liquidity Risks

1. Market Risk Exposure and Management

The business activity of the Company is exposed to market risks arising from volatility in interest rates, exchange rates, 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 relation to the policies established by the Company.

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.

Market risk is managed at the Group level, for the Company and its subsidiaries. Risk management policy, objectives, and procedures are uniform throughout the Group.

In order to implement the requirements of its market risk management policy, 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. Interest-rate exposure

Exposure to changes in the interest rate arises from the gap between maturity dates and dates of interest changes of assets and liabilities in each of the linkage segments. For the purposes of interest rate risk management, gaps between assets and liabilities in future periods are examined, and comparisons of terms to maturity of assets, liabilities, and capital in the shekel segment are performed on a monthly basis.

Interest-rate exposure exists primarily in the shekel segment, as this segment contains assets at fixed interest rates. The Company is also exposed to changes in spreads in respect of medium- and long-term floating-rate loans granted in this segment, and in respect of credit taken from banks. The Company believes that its exposure to changes in interest rates is immaterial.

1. Fair value of financial instruments of the Company and its consolidated subsidiaries, excluding non-monetary items

	December 31, 2010				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	11,913	78	132	1	12,124
Amounts receivable in respect of derivative financial instruments	110	-	10	-	120
Financial liabilities	10,903	61	60	8	11,032
Amounts payable in respect of derivative financial instruments	120	-	-	-	120
Net fair value of financial instruments	**1,000**	**17**	**82**	**(7)**	**1,092**

	December 31, 2009				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	11,010	168	88	11	11,277
Amounts receivable in respect of derivative financial instruments	10	-	-	-	10
Financial liabilities	10,253(1)	51	69	*-	10,373(1)
Amounts payable in respect of derivative financial instruments	10	-	-	-	10
Net fair value of financial instruments	**757**	**117**	**19**	**11**	**904**

* Amount lower than NIS 0.5 million.

** Including Israeli currency linked to foreign currency.

(1) Restated; see Note 1DD.

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

	December 31, 2010							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	999	17	82	(7)	-	1,091	(1)	(0.1)
Immediate parallel increase of 0.1%	1,000	17	82	(7)	-	1,092	*-	-
Immediate parallel decrease of 1%	1,001	17	82	(7)	-	1,093	1	0.1

	December 31, 2009							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency(1)		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	757	116	19	11	-	903	(1)	(0.1)
Immediate parallel increase of 0.1%	757	117	19	11	-	904	*-	-
Immediate parallel decrease of 1%	756	117	20	11	-	904	*-	-

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

(1) Restated; see Note 1DD.

C. 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 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, mainly through on-call loans from banks.

During the period, the disposable capital of the Company was given as credit to cardholders and merchants, and invested in deposits with banks in shekels and in marketable bonds of the Israeli government, which matured on June 30, 2010.

The adjustment of liquidity risk policy to the Basel II requirements will be completed during the first half of 2011.

D. Exposure to prices of securities

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

E. Derivative financial instruments

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

The only activity in derivative financial instruments permitted to the Company is for the purposes of economic hedging. The Company has purchased IRS and FRA transactions in order to hedge interest-rate exposures, and has used forward contracts to hedge US dollar exposure against the shekel. The results of hedging activity are included in the statement of profit and loss on the date when the results of the transactions in respect of which the hedging transactions were performed are reflected.

2. Policy Execution and Control of Market-Risk Management

The Company's existing exposure to market risks, as described in Section 1 above, 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 routinely monitors and tracks borrowers through control reports generated at various cross-sections and frequencies.

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

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

The Company'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 Credit Risk Control and Management Unit is the central unit of the Credit and Financial Services Division. The unit is part of the first level of controls, and performs overarching control within the credit risk management process. The unit is responsible for writing policies and procedures for credit risk management and control. The unit is independent and characterized by independence from the business of the division.

The activity of the unit includes:

- Control over the various types of diversification of the credit portfolio.
- Control over returns versus risks.
- Checking compliance with credit limits, credit authority, and regulatory restrictions.
- Periodic examinations of transactions with high risk ratings and sample examinations of the overall portfolio.
- Evaluation of the level of risk at the level of the consumer/corporate credit portfolio.
- Monitoring and reporting on the Group's exposures to financial institutions.
- Monitoring developments in interest-rate risk arising from credit granting.

Provision for Doubtful Debts

The provision for doubtful debts includes a specific provision and a group provision. The specific provision reflects the loss inherent in debts created, the collection of which is in doubt. In determining the amount of the provision, the Company relies, among other factors, on information available to it regarding debtors' financial position and volume of activity, an evaluation of collateral received from them, and past experience. The group provision is calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision. The Company is also preparing for the implementation of the Public Reporting Directives on the subject of the measurement and disclosure of impaired debts, credit risk, and provision for credit losses.

The balance of debtors in respect of debts created in respect of credit cards, the collection of which is in doubt, after provision for specific debts, is approximately NIS 55 million.

Non-performing assets, impaired debts accruing interest income, problematic commercial credit risk, and unimpaired debts in arrears of 90 days or more:

	Balance as of December 31, 2010
Consolidated	**Reported amounts**
1. Non-performing assets	
Impaired credit to the public not accruing interest income:	
Examined on an individual basis	7
Examined on a group basis*	-
Total impaired debts not accruing interest income	**7**
Total non-performing assets	**7**

	Balance as of December 31, 2010
Consolidated	**Reported amounts**
2. Problematic commercial credit risk [(1)]	
Balance-sheet credit risk in respect of the public	3
Total problematic commercial credit risk in respect of the public	3
Total problematic commercial credit risk	**3**

3. Unimpaired debts in arrears of 90 days or more	12

* Credit to the public examined on a group basis and found to be in arrears of more than 150 days was written off in accounting; therefore, no debt balance is recorded in respect of such credit.

(1) Balance-sheet credit risk (credit, bonds, other debts recognized in the balance sheet, and assets in respect of derivative instruments), and the risk of off-balance-sheet credit that is impaired, inferior, or under special supervision, excluding balance-sheet and off-balance-sheet credit risk in respect of private individuals.

Table 1 – Summary of the Effect on Retained Earnings as of December 31, 2010

	December 31, 2010
Balance of retained earnings as of Dec. 31, 2010 included in the financial statements	1,237
Cumulative effect net of tax of initial implementation of the new directives as of Dec. 31, 2010	(39)
Of which:	
Change in provision for credit losses	(49)
Related tax effect	10
Balance of retained earnings as of Dec. 31, 2010 under the new directives	1,198

Risk and Credit Indices

		December 31, 2010
		%
(A)	Ratio of balance of impaired credit to the public not accruing interest income	0.06
(B)	Ratio of balance of unimpaired credit to the public in arrears of 90 days or more, to balance of credit to the public	0.10
(C)	Ratio of balance of provision for credit losses in respect of credit to the public, to balance of credit to the public	0.46
(D)	Ratio of balance of provision for credit losses, to balance of impaired credit to the public not accruing interest income	905.00
(E)	Ratio of problematic commercial credit risk in respect of the public, to total credit risk in respect of the public	0.03

Credit Exposure to Foreign Financial Institutions and Foreign Countries

The Company has immaterial exposure to the international organization MasterCard International Incorporated in respect of balances of volumes of transactions executed by tourists in Israel, less balances of volumes of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization.

Capital 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, in a calculation referring to the capital adequacy ratio under the Basel II directives only. 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 14B 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 companies; to establish a system of risk management and control; and to expand disclosure requirements, in order to help bring regulatory capital closer to the economic capital necessary in order to absorb losses and ensure the robustness and resilience of the corporation.

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

The Basel II recommendations consist of three pillars:

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

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

In June 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	68	-
2	Structure of capital	68	69
3	Capital adequacy	70	67
4	Credit risk – general disclosure requirements	71	-
5	Credit risk	-	70
6	Credit risk – disclosure for portfolios treated using IRB approaches (not relevant to the Company)	-	-
7	Credit risk mitigation	85	81
8	General disclosure regarding exposures related to credit risk of counterparties	86	-
9	Securitization (not relevant to the Company)	-	-
10	Disclosure by companies using the standard approach	86	-
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	89	89
13	Disclosure of positions in shares in the banking book	91	91

Capital Adequacy

Consolidated Data

1. Capital for the calculation of the capital ratio

	December 31, 2010	December 31, 2009
	NIS millions	
Tier I capital, after deductions	1,268	*1,070
Tier II capital, after deductions	4	**-
Total overall capital	**1,272**	**1,070**

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	7,749	697	*7,254	653
Market risks – foreign currency exchange rate risk	75	7	30	3
Operational risk	1,324	119	*1,209	109
Total weighted balances of risk-adjusted assets	**9,148**	**823**	**8,493**	**765**

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	13.9	*12.7
Ratio of Tier I capital to risk-adjusted assets	13.9	*12.6
Ratio of total capital to risk-adjusted assets	13.9	*12.6
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

4. The expected effect of the implementation of the impaired debt directives on the capital ratio is a decrease of approximately 0.4%.

* Restated; see Note 1DD.

** Amount lower than NIS 0.5 million.

Applicability of Implementation

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

The Company has five consolidated subsidiaries: Isracard Mimun, Isracard Nechasim, Europay, Tzameret Mimunim, and Global Factoring.

For details regarding the indemnification letter, see the section "Legal Proceedings and Pending Claims" in the Board of Directors' Report.

In general, the capital requirements of the Company are based on its consolidated financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Supervisor of Banks. However, as of December 31, 2010, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Structure of Capital

Structure of Regulatory Capital

Pursuant to the Basel II directives, banking corporations and 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 and Tier II capital, deducting the balance of goodwill in the Company's books.

Tier I capital includes shareholders' equity (not including unrealized profits in respect of the statement of securities available for sale at fair value), and minority interests' rights to the capital of consolidated companies, deducting goodwill.

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	*-	*-
Retained earnings	1,237	1,053
Other capital instruments	32	22
Minority interests' rights to shareholders' equity of consolidated companies	6	5
Total core capital	1,275	1,080
Less: Goodwill	7	10
Less: Net losses in respect of fair-value adjustments of securities available for sale	-	(*-)
Total Tier I capital	1,268	1,070
Tier II capital		
45% of total net profits before related tax effect in respect of fair-value adjustments of securities available for sale	4	*-
Total eligible capital	**1,272**	**1,070**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD to the Financial Statements.

The effect on capital of the implementation of the impaired debt directives is a decrease in retained earnings of NIS 39 million.

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:				
Sovereign	-	-	-	-
Public-sector entities	5	*-	2	*-
Banking corporations	4,502	405	4,734	426
Corporations	843	76	***641	58
Retail loans to individuals	1,832	165	1,217	110
Small businesses	166	15	286	26
Other assets	401	36	**374	33
Total credit risk	7,749	697	7,254	653
Market risks – foreign currency exchange rate risk	75	7	30	3
Operational risk	1,324	119	**1,209	109
Total weighted balances of risk-adjusted assets / capital requirements	9,148	823	8,493	765

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

*** Reclassified.

	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)	1,272	**1,070
Ratio of core capital to risk-adjusted assets	13.9%	**12.7%
Ratio of Tier I capital to risk-adjusted assets	13.9%	**12.6%
Ratio of total capital to risk-adjusted assets	13.9%	**12.6%
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%

** Restated; see Note 1DD.

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 provisions for doubtful debts on two levels: a specific provision and a provision on a group basis.

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.

Group Provision

The Company performs an additional provision for doubtful debts on a group basis. The calculation of the group provision is divided into customer clubs; the percentage of the provision for each club is established based on past experience. Each quarter, the Company examines the rate of the group provision for each club separately.

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.

- Diversification over a range of credit products – the Company's credit portfolio consists of a variety of credit products with differing risk levels. Credit products are: credit through credit cards, loans through credit cards, loans for the purchase of motor vehicles, loans to private individuals, loans to merchants, advance payments to merchants, check settlement assurance and check discounting, and factoring.

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.

Off-Balance-Sheet Exposures

The Company used a credit conversion factor (CCF) to convert its off-balance-sheet credit exposures into credit exposures under the Basel II directives, as described below:

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

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

Credit Exposures

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

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

	December 31, 2010						
	Balance-sheet credit risk			Off-balance-sheet credit risk			
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure
	NIS millions						
Banking corporations	663	92	755	1	25	*-	781
Corporations	769	-	769	-	648	8	1,425
Retail to individuals	9,415	-	9,415	-	29,547	60	39,022
Small businesses	1,117	-	1,117	-	2,545	-	3,662
Public sector	9	-	9	-	*-	-	9
Government	*-	-	*-	-	3	-	3
Other assets (1)	-	421	421	-	-	-	421
Total exposures	**11,973**	**513**	**12,486**	**1**	**32,768**	**68**	**45,323**

	December 31, 2009					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
	NIS millions					
Banking corporations	184	493	677	1	-	678
Corporations	636	-	636	***537	-	1173
Retail to individuals	8,605	-	8,605	33,416	18	42,039
Small businesses	1,183	-	1,183	3,152	-	4,335
Public sector	4	-	4	*-	-	4
Government	-	111	111	3	-	114
Other assets (1)	-	**395	395	-	-	395
Total exposures	**10,612**	**999**	**11,611**	**37,109**	**18**	**48,738**

* Amount lower than NIS 0.5 million.
** Restated; see Note 1DD.
*** Reclassified.
(1) Includes fixed assets, investments in companies, and others.

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

	December 31, 2010						
	Balance-sheet credit risk			Off-balance-sheet credit risk			
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure (2)
	NIS millions						
Banking corporations	476	200	676	*-	13	-	689
Corporations	792	-	792	-	624	6	1,422
Retail to individuals	8,914	-	8,914	-	31,088	40	40,042
Small businesses	1,052	-	1,052	-	2,766	-	3,818
Public sector	9	-	9	-	-	-	9
Government	3	9	12	-	4	-	16
Other assets (1)	-	427	427	-	-	-	427
Total exposures	**11,246**	**636**	**11,882**	***-**	**34,495**	**46**	**46,423**

	December 31, 2009					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure (2)
	NIS millions					
Banking corporations	173	573	746	*-	-	746
Corporations	584	-	584	***281	-	865
Retail to individuals	8,108	-	8,108	19,298	15	27,421
Small businesses	1,084	-	1,084	1,590	-	2,674
Public sector	4	-	4	*-	-	4
Government	2	249	251	2	-	253
Other assets (1)	-	**349	349	-	-	349
Total exposures	**9,955**	**1,171**	**11,126**	**21,171**	**15**	**32,312**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

*** Reclassified.

(1) Includes fixed assets, investments in companies, and others.

(2) Average exposure calculated on a quarterly basis.

			December 31, 2010		
			NIS millions		
Exposure	**Credit risk**	**Type of exposure**	**Problematic debt (1)**	**Debt in arrears (2)**	**Provision for doubtful debts**
Retail to individuals	Balance sheet	Credit	2	2	23
Small businesses	Balance sheet	Credit	*-	*-	4
Corporations	Balance sheet	Credit	61	-	52
Banking corporations	Balance sheet	Credit	-	-	*-
Public sector	Balance sheet	Credit	-	-	*-
Government	Balance sheet	Credit	-	-	*-
Total	**Balance sheet**	**Credit**	**63**	**2**	**79**

			December 31, 2009		
			NIS millions		
Exposure	**Credit risk**	**Type of exposure**	**Problematic debt (1)**	**Debt in arrears (2)**	**Provision for doubtful debts**
Retail to individuals	Balance sheet	Credit	5	*-	11
Small businesses	Balance sheet	Credit	1	*-	2
Corporations	Balance sheet	Credit	45	-	47
Banking corporations	Balance sheet	Credit	-	-	*-
Public sector	Balance sheet	Credit	-	-	*-
Government	Balance sheet	Credit	-	-	-
Total	**Balance sheet**	**Credit**	**51**	***-**	**60**

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

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

* Amount lower than NIS 0.5 million.

Segmentation of the Portfolio by Remaining Contractual Term to Maturity

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

	December 31, 2010					
	Expected contractual future cash flows, in NIS millions					
	Up to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	5 years to 10 years
Deposits with banks	87	-	5	-	-	-
Credit:						
Debtors in respect of credit cards	9,750	353	70	-	-	-
Credit to cardholders and merchants	864	147	36	9	1	-
Companies and international credit-card organization	587	27	4	-	-	-
Income receivable	18	-	-	-	-	-
Other assets	98	33	-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Transactions in derivative financial instruments	-	1	-	-	-	-
Off balance sheet – credit facilities and other	32,180	-	3	-	-	-
Total assets	**43,584**	**561**	**118**	**9**	**4**	**-**

	December 31, 2009					
	Expected contractual future cash flows, in NIS millions					
	Up to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	5 years to 10 years
Deposits with banks	487	1	-	5	-	-
Bonds	100	-	-	11	-	-
Credit:						
Debtors in respect of credit cards	8,974	312	60	*-	*-	-
Credit to cardholders and merchants	999	24	1	*-	-	-
Companies and international credit-card organization	103	11	2	-	*-	-
Income receivable	16	-	-	-	-	-
Other assets	98	21	-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Off balance sheet – credit facilities and other	33,249	-	-	-	-	-
Total assets	**44,026**	**369**	**63**	**16**	**3**	**-**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

				Balance-sheet balance		
	10 years to 20 years	Over 20 years	Total cash flows	No maturity period	Non-monetary assets	Total
	-	-	92	-	-	92
	-	-	10,173	12	-	10,176
	-	-	1,057	3	-	1,053
	-	-	618	-	-	618
	-	-	18	-	-	18
	-	-	134	106	-	240
	-	-	-	-	289	289
	-	-	1	-	-	1
	-	-	32,183	653	-	32,836
	-	**-**	**44,276**	**774**	**289**	**45,323**

				Balance-sheet balance		
	10 years to 20 years	Over 20 years	Total cash flows	No maturity period	Non-monetary assets	Total
	-	-	493	-	-	493
	-	-	111	-	-	111
	-	-	9,346	1	-	9,371
	-	-	1,024	25	-	1,012
	-	-	116	*-	-	116
	-	-	16	-	-	16
	-	-	122	30	-	**151
	-	-	-	-	341	341
	-	-	33,249	3,878	-	37,127
	-	**-**	**44,477**	**3,934**	**341**	**48,738**

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 credit-risk mitigation

		December 31, 2010						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	39,020	-	2	39,022
Small businesses	Unrated	-	-	-	3,662	-	*-	3,662
Corporations	Unrated	-	-	-	-	1,386	13	1,399
	Rated	-	-	-	-	26	-	26
Banking corporations	Unrated	-	420	243	-	-	-	663
	Rated	-	68	50	-	-	-	118
Public sector	Unrated	-	-	9	-	-	-	9
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	20	-	-	-	401	-	421
Total		**23**	**488**	**302**	**42,682**	**1,813**	**15**	**45,323**

The amount deducted from capital is NIS 7 million, in respect of goodwill.

After credit-risk mitigation

		December 31, 2010						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	9,851	-	2	9,853
Small businesses	Unrated	-	-	-	555	-	*-	555
Corporations	Unrated	-	-	-	-	1,010	13	1,023
	Rated	-	-	-	-	26	-	26
Banking corporations	Unrated	-	1,590	6,168	-	-	-	7,758
	Rated	-	3,400	22,275	-	-	-	25,675
Public sector	Unrated	-	-	9	-	-	-	9
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	20	-	-	-	401	-	421
Total		**23**	**4,990**	**28,452**	**10,406**	**1,437**	**15**	**45,323**

The amount deducted from capital is NIS 7 million, in respect of goodwill.

* Amount lower than NIS 0.5 million.

Before credit-risk mitigation

		December 31, 2009						
Exposure	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	42,033	1	5	42,039
Small businesses	Unrated	-	-	-	4,174	160	1	4,335
Corporations	Unrated	-	-	-	-	1,089(1)	2	1,091
	Rated	-	-	-	-	82	-	82
Banking corporations	Unrated	-	337	46	-	-	-	383
	Rated	-	277	18	-	-	-	295
Public sector	Unrated	-	-	4	-	-	-	4
Government	Rated	114	-	-	-	-	-	114
Other assets	Unrated	**21	-	-	-	**374	-	395
Total		**135**	**614**	**68**	**46,207**	**1,706**	**8**	**48,738**

The amount deducted from capital is NIS 10 million, in respect of goodwill.

After credit-risk mitigation

		December 31, 2009						
Exposure	Rating	0%	20%	50%	75%	100%	150%	Net credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	6,672	*-	5	6,677
Small businesses	Unrated	-	-	-	403	151	1	555
Corporations	Unrated	-	-	-	-	669(1)	2	671
	Rated	-	-	-	-	82	-	82
Banking corporations	Unrated	-	1,396	6,769	-	-	-	8,165
	Rated	-	3,380	28,695	-	-	-	32,075
Public sector	Unrated	-	-	4	-	-	-	4
Government	Rated	114	-	-	-	-	-	114
Other assets	Rated	**21	-	-	-	**374	-	395
Total		**135**	**4,776**	**35,468**	**7,075**	**1,276**	**8**	**48,738**

The amount deducted from capital is NIS 10 million, in respect of goodwill.

(1) Reclassified.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Use of Eligible Collateral for Credit Risk Mitigation

The following table lists the types of exposures used and the exposures covered.

			December 31, 2010			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of the Banks Under Arrangement		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			NIS millions			
Retail to individuals	Balance sheet	Credit	9,415	(7,808)	-	1,607
	Off balance sheet	Credit facility	29,547	(21,361)	-	8,186
	Off balance sheet	Other	60	-	-	60
Small businesses	Balance sheet	Credit	1,117	(934)	-	183
	Off balance sheet	Credit facility	2,545	(2,173)	-	372
Corporations	Balance sheet	Credit	769	(84)	-	685
	Off balance sheet	Credit facility	648	(292)	-	356
	Off balance sheet	Other	8	-	-	8
Banking corporations	Balance sheet	Credit	663	-	8,826	9,489
	Balance sheet	Deposits	92	-	-	92
	Transactions in derivative financial instruments		1	-	-	1
	Off balance sheet	Credit facility	25	-	23,826	23,851
Public sector	Balance sheet	Credit	9	(*-)	-	9
	Off balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	3	-	-	3
Other assets	Balance sheet	Other assets	421	-	-	421
Total			**45,323**	**(32,652)**	**32,652**	**45,323**

* Amount lower than NIS 0.5 million.

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

The following table lists the types of exposures used and the exposures covered.

			December 31, 2009			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of the Banks Under Arrangement		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			NIS millions			
Retail to individuals	Balance sheet	Credit	8,605	(7,552)	-	1,053
	Off balance sheet	Credit facility	33,416	(27,810)	-	5,606
	Off balance sheet	Other	18	-	-	18
Small businesses	Balance sheet	Credit	1,183	(877)	-	306
	Off balance sheet	Credit facility	3,152	(2,903)	-	249
Corporations	Balance sheet	Credit	636	(81)	-	555
	Off balance sheet	Credit facility	537(1)	(339)	-	198
Banking corporations	Balance sheet	Credit	184	-	8,510	8,694
	Balance sheet	Deposits	493	-	-	493
	Off balance sheet	Credit facility	1	-	31,052	31,053
Public sector	Balance sheet	Credit	4	-	*-	4
	Off balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Bonds	111	-	-	111
	Off balance sheet	Credit facility	3	-	-	3
	Off balance sheet	Other	-	-	-	-
Other assets	Balance sheet	Other assets	**395	-	-	395
Total			**48,738**	**(39,562)**	**39,562**	**48,738**

(1) Reclassified.

* Amount lower than NIS 0.5 million.

** Restated.

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.

Credit Risk Mitigation (CRM)

The Company has repayment sources (means of repayment of customers' debts) which are not recognized under Basel II for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the standard approach in Pillar I. However, in its routine operations the Company considers these repayment sources as existing permanent flows, and uses them to manage credit risks (for risk management purposes, rather than for capital allocation).

No collateral exists against non-bank credit to cardholders (such credit is granted according to the rating of the applicant).

Corporate credit is mainly based on the turnovers of the merchant, and the credits owed to it serve as the repayment source for cases in which the credit is not repaid.

This activity is conducted in accordance with credit policies. The amount of the credit is established according to the rating of the business, the type of credit product, and the turnovers of the merchant. In addition, loans to merchants are conditional upon the receipt of a personal guarantee from the owner.

The situation is different in private credit for the purchase of motor vehicles. The credit extended for the purchase of a motor vehicle is backed by a lien on the motor vehicle in favor of the Company. Default on payments allows realization of the motor vehicle and repayment of the liability.

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

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

From time to time the Company uses 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.

The Company uses IRS (interest rate swap) and FRA (forward rate agreement) hedging instruments to hedge interest-rate positions to which it is exposed. These contracts are purchased in order to reduce the risk that unexpected changes in interest rates may damage the fair value of the assets and liabilities of the Company, and consequently its financial condition.

As of December 31, 2010, an IRS contract with a face value of NIS 20 million exists. The contract is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million. FRA contracts exist at face value of NIS 90 million. These contracts are presented in the balance sheet at a positive gross fair value in an amount lower than NIS 0.5 million.

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 uses forward contracts to hedge currency risk in long-term purchasing transactions.

As of December 31, 2010, forward transactions that have not yet matured exist, which are presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

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 and Board of Directors.
- **Procedures and policies** – The areas of responsibility and authority in the area of risk management assigned to Management, the Board of Directors, the Audit Committee, 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 liquidity 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 foreign currency exchange rate risk

	Capital requirement	
	December 31, 2010	December 31, 2009
	In NIS millions	
Market risks – Foreign currency exchange rate risk*	7	3

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

Operational Risk

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

	Capital requirement	
	December 31, 2010	December 31, 2009
	In NIS millions	
Operational risk	119	*109

* Restated; see Note 1DD.

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.

Disclosure Regarding Positions in Shares in the Banking Book

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

	December 31, 2010			
	NIS millions			
	Balance-sheet balance	**Fair value**	**Nature of investment**	**Capital requirements**
Store Alliance.Com Ltd.	11	-	Private	1
Life Style Customer Loyalty Club Ltd.	3	-	Private	*-
Life Style Financing Ltd.	-	-	Private	-
I.M.T. - The Central Vehicle Distribution Company Ltd.	1	-	Private	*-
Kidum Mivne Iguach 1 Ltd.	2	-	Private	*-
MasterCard Incorporated (MC)	**59	59	Marketable	5
Walla! Communications Ltd.	1	1	Marketable	*-
Total	**77**	**60**		**6**

	December 31, 2009			
	NIS millions			
	Balance-sheet balance	Fair value	Nature of investment	Capital requirements
Store Alliance.Com Ltd.	11	-	Private	1
Life Style Customer Loyalty Club Ltd.	4	-	Private	*-
Life Style Financing Ltd.	1	-	Private	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	*-	-	Private	*-
Kidum Mivne Iguach 1 Ltd.	2	-	Private	*-
MasterCard Incorporated (MC)	**50		Private	5
Walla! Communications Ltd.	1	1	Marketable	*-
Total	**69**	**1**		**6**

* Amount lower than NIS 0.5 million.

** Up to and including December 31, 2009, the investment was presented in the financial statements according to the historical cost. Starting with the financial statements for the first quarter of 2010, the investment has been presented in the financial statements at fair value (the blockage on trading in the shares was lifted towards the end of the first half of 2010).

Store Alliance.Com Ltd.

The Company holds approximately 13% of the issued share capital of Store Alliance.Com Ltd. The investment in Store Alliance.Com Ltd. is stated on the basis of the historical cost. The holding in Store Alliance.Com is the result of an agreement synergetic with the Company's B2B activity.

Life Style Customer Loyalty Club Ltd. and Life Style Financing Ltd.

The Company holds 15% of the issued share capital of Life Style Customer Loyalty Club Ltd. and of Life Style Financing Ltd.

Life Style Ltd. operates the Lifestyle customer club, jointly with the Company. Within the activity of the club, Lifestyle Multi Purpose credit cards are issued, including cards integrated with More cards, which operate based on the revolving credit method. In addition, Life Style Financing provides sources of financing for More cards. The investment is stated in the financial statements according to the historical cost. This is a strategic investment, as part of the expansion of the joint activity with the club. For further details, see Note 18A(1) to the Financial Statements.

I.M.T. - The Central Vehicle Distribution Company Ltd.

IMT leases motor vehicles to its customers through financing and operational leasing, while providing financing sources. The Company holds 20% of the issued share capital of IMT. The investment in IMT is stated in the financial statements based on the equity method and is a strategic investment, as part of the expansion of the Company's financing activity.

Kidum Mivne Iguach 1 Ltd.

Kidum extends loans to the general public for the purchase of pre-owned motor vehicles with a manufacturing year no more than five years prior to the date of granting of the loan. In addition, subject to specific approvals, Kidum is permitted to provide financing for the purchase of new taxicabs.

The Company holds 20% of the issued share capital of Kidum. The investment in Kidum is stated in the financial statements based on the equity method, and is a strategic investment, as part of the expansion of the Company's financing activity.

Shares of MasterCard Incorporated ("MC")

The Company holds issued share capital constituting less than 1% of the shares of MC. The shares are Class B shares. Up to and including December 31, 2009, the investment was presented in the financial statements according to the historical cost. Starting with the financial statements for the first quarter of 2010, the investment has been presented in the financial statements at fair value (the blockage on trading in the shares was lifted towards the end of the first half of 2010).

Walla! Communications Ltd.

The Company holds issued share capital constituting less than 1% of the shares of Walla. The investment is stated in the financial statements in the available-for-sale portfolio. Profit (loss) is allocated to a capital reserve. The shares were received as a result of a settlement agreement between the companies.

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, 5760-2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 5761-2001.

- 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,” Section 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 conformity 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 1 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.

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

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

The provision made in the books represents a provision at a rate of approximately 48% of the balance of unutilized Stars as of the end of 2010. This rate takes into consideration the Company’s announcement of the termination of the loyalty program in 2011.

In January 2011, the Company notified its customers of the extension of the loyalty program until May 2011. Customers will receive a reminder during March 2011 informing them that they can accumulate Stars within the program until the debiting date in May 2011, and that such accumulated Stars can be used until December 31, 2011.

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

1. The Company engaged a statistics expert to determine the rate of the provision in respect of the future use of Stars. The Company adopted a conservative approach, which also takes into account heightened usage due to the termination of the loyalty program.

2. Price of Stars – based on the actual average cost per Star as of the end of the year.

Some of the foregoing information constitutes forward-looking information.

Stars inventory and movements:

	Consolidated	
	December 31	
	2010	2009
	In thousands of Stars	
Opening balance	**1,006,125**	**940,736**
Stars created	268,421	301,504
Stars used	(205,658)	(208,567)
Stars cancelled	(31,233)	(27,548)
Closing balance	**1,037,655**	**1,006,125**

The provision made in the books in respect of unutilized Stars as of December 31, 2010 is NIS 78 million.

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

	Change in expected rate of use	Change in price per Star
	NIS thousands	
Immediate increase of 1%	6,316	783
Immediate decrease of 1%	**(6,316)**	**(783)**

Provision for Doubtful Debts

The financial statements include specific provisions for doubtful debts. In addition, a provision on a group basis is included. The specific provisions fairly reflect, according to the assessment by Management, the loss inherent in debts the collection of which is in doubt. In determining the fairness of the provision, Management relies, among other factors, on a risk assessment based on the information available to it with regard to debtors' financial condition and volume of activity, an evaluation of the collateral received from debtors, and past experience. The provision for doubtful debts on a group basis is calculated, based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision.

Liabilities for Employee Rights

Part of the provisions for the Company's liabilities in connection with employees on loan from the Bank are based, among other considerations, on actuarial calculations. This refers to a liability for the long-service grant to which each employee is entitled after 25 years of work, a liability for compensation for unutilized sick leave, post-retirement benefits, and pension-related liabilities concerning payments to employees who retire before the legal retirement age.

The amount of the liabilities is calculated based on actuarial estimates. The liabilities are discounted at a factor of 4% per year, as stipulated by the Supervisor of Banks, net of the rate of increase in real wages.

Actuarial calculations are mainly based on assumptions and estimates, which rely on past experience and various statistics, such as mortality tables, employee departure rates, the real rate of change in wages over time, etc. In addition, changes in the various actuarial parameters would lead to results different from those obtained today.

Contingent Liabilities

The Management of the Company includes sufficient provisions in the financial statements, to the extent necessary, to cover possible damages arising from all legal claims, based on legal opinions. In most legal proceedings, external legal counsel is obtained. These assessments by legal advisors are based on the best of their judgment, taking the stage reached by the proceedings into consideration.

It should be taken into account that in the legal field, “certain” or “near certain” estimates cannot be performed, not only in the initial stages of the claim, but until a ruling is handed down. Accordingly, the outcome of the proceedings may differ from the estimates performed. In light of the foregoing, the actual outcomes of legal claims may differ from the provisions made.

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 sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and a routine process is in place for the control of compliance with these limits.	Low
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.	Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate in the Israeli economy. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Medium
10.	Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, damage infrastructures, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Medium
11.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium

Risk factor		Brief description	Effect
12.	Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular 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 Europay (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
13.	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, 5752-1992 (hereinafter: the "Internal Audit Law"). The Internal Auditor is not an interested party of the Company or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of Bank Hapoalim and of some of the subsidiaries in the Bank Group (including the Isracard Group), as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

The appointment and termination of internal audit employees are subject to approval by the Internal Auditor; internal audit employees receive instructions on audit-related matters only from the Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; 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), 5753-1992 (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.

The Internal Audit work plan also addresses the activity of subsidiaries.

Auditing resources – Approximately 3 auditor positions were invested at the Company and its subsidiaries in 2010. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

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

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

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

Internal Auditor's report – Internal Audit reports, including periodic reports, are submitted in writing. Audit reports are submitted to the 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 Europay, 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: Europay, 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 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 Europay.

From December 2007 to October 2009, member of the Board of Management 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 Board of Directors 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 Europay; and as a member of the audit committee of Europay.

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., Europay (Eurocard) Israel 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., Europay, Poalim Express, and Aminit.

Also a member of the audit committees of the boards of directors of the following companies: Europay, 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 a member of the board of directors of Europay and of the audit committee of the board of directors of Europay.

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 Central 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 boards of directors and audit committees of the following companies: Europay (Eurocard) Israel 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: Europay, 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: Europay, 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 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: Europay, 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 Sciences, 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: Europay, 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: Europay; 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: Europay, 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 at year end, as of the financial statements for December 31, 2008.

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

As of the reporting date, the Company has completed a process of strengthening and improving controls related to the recording of provisions for the loyalty program, and has examined the controls listed below:

- Implementation of additional controls for the proper recording of provisions.

- Revalidation of the statistical model and the main assumptions used to establish the model.

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

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company as 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.

Wages and Benefits of Officers[1]

The following table lists the salaries, compensation, value of benefits, employer contributions, and provisions for the five recipients of the highest wages among the senior officers of the Company, in thousands of NIS.

Wages of Senior Officers for the Year Ended December 31, 2010

	Salary	Other payments[3]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler	1,263	1,722	2,515	96	427
Irit Izakson	1,248	1,326	1,609	105	211
Pinhas Shalit[7]	562	2,251	-	74	160
Ron Cohen	703	274	448	37	285
Eliezer Burg	613	274	362	172	166

Wages of Senior Officers for the Year Ended December 31, 2009

	Salary	Other payments[3]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Irit Izakson*	1,303	1,036	4,151[5]	166	537
Dov Kotler	1,118	1,216	3,842[5]	78	382
Haim Krupsky[6]	1,176	1,722	338[4]	114	(447)
Danny Adiri	393	1,172	-	130	1,060
Dudi Doron	481	29	-	46	1,580

* Salary calculation based on 15 months.

For explanations of these tables, see pages 119-121.

Total salaries and related expenses	Loans granted under benefit terms: Balance as of Dec. 31, 2010	Average term to maturity (in years)	Benefit granted during the year(8)	Loans granted under ordinary terms(9)	Payments by controlling shareholders
6,023	-	-	-	34	-
4,499	-	-	-	52	158
3,047	-	-	-	40	-
1,747	-	-	-	53	-
1,587	55	3	1	31	-

Total salaries and related expenses	Loans granted under benefit terms: Balance as of Dec. 31, 2009	Average term to maturity (in years)	Benefit granted during the year(8)	Loans granted under ordinary terms(9)	Payments by controlling shareholders
7,193	-	-	-	33	121
6,636	-	-	-	35	-
2,903	-	-	14	20	(2)
2,755	-	-	-	19	633
2,136	-	-	-	20	1,460

Explanations of Tables on P. 117-118

1. Pursuant to an agreement with companies in the Isracard Group, those companies are debited with some operational costs, which include wages of senior officers, among other things. The table shows the full wages paid to such officers.

2. The profitability and rate of return on equity of the Bank Hapoalim Group were taken into consideration in determining the amounts of the bonuses. Based on data for 2008, employees were not entitled to an annual bonus in 2009. The bonus included in the data for 2009 results from a difference between the estimate included in the financial statements for 2007 and the actual amount paid for 2009.

3. As described in Note 15B to the Financial Statements.

4. The benefit is in the form of phantom unit options, which impart a monetary grant based on the difference between the price of the Bank Hapoalim share on the TASE and the base price. In 2009, the exercise price was NIS 19.39 per unit for Mr. Haim Krupsky, and NIS 18.75 per unit for Mr. Ron Cohen.

5. As described in Note 15F to the Financial Statements as of December 31, 2010.

   5.1. Pursuant to the employment agreement of the Chairperson of the Board of Directors of the Company, she will be allocated 6,293 non-tradable option notes exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting period of the options is as follows: One-third of the options vest on January 1 of each of the years 2010, 2011, and 2012. The Chairperson will be able to exercise the options into shares (after vesting) until January 1, 2013. As a rule, the Chairperson will not be permitted to sell shares until one of the following events occurs: the end of her employment, the listing of the shares of the Company for trading on the stock market, or a change in the control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

Isracard has first proposal right and first refusal right with regard to any transfer of shares by the Chairperson of the Company. The Chairperson has the right to join sales of shares of the Company by Bank Hapoalim, under certain conditions.

The agreement also includes directives pertaining to the options in the event of the end of the term of service of the Chairperson. In addition, in the event of the termination of the term of service of the Chairperson prior to the listing of the shares for trading on the stock market, Isracard shall have the right, under certain conditions, to purchase the shares arising from the exercise of the options.

The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 5721-1961.

Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010.

5.2. Pursuant to his employment agreement, 7,404 non-tradable option notes exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each were allocated to the CEO of the Company. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 7,545 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

The vesting periods of the options are as follows: One-third of the options vest on March 1 of each of the years 2010, 2011, and 2012. The CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

As a rule, the CEO of the Company is not permitted to sell shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock exchange, or a change in control of the Company. The options will be exercised based on a net exercise mechanism; at the time of exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that time.

Isracard has first proposal right and first refusal right with regard to any transfer of shares by the current CEO of the Company. The CEO has the right to join sales of shares by Bank Hapoalim, under certain conditions.

The agreement also includes directives pertaining to the options in the event of the end of the term of service of the CEO. In addition, in the event of the end of the term of service of the CEO prior to the listing of the shares for trading on the stock market, Isracard shall have the right, under certain conditions, to purchase the shares.

The options were allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 5721-1961.

6. The remuneration and the terms thereof were approved by the general assembly of the Company. The aforesaid officer concluded his term of service as Deputy Chairman of the Board of the Company on October 31, 2009, as described in Note 15.2.b. to the Financial Statements as of December 31, 2009.

   Under a non-competition and consulting agreement with Mr. Haim Krupsky, his employment as Deputy Chairman of the Board of Directors ended on October 31, 2009. The agreement defines a period of non-competition and provision of consulting services, for three years, starting November 1, 2009. The agreement cannot be cancelled. Pursuant to the agreement, the outgoing Deputy Chairman will receive payment in respect of non-competition in the amount of NIS 1.5 million within one year, and NIS 75 thousand per month for 36 months. In addition, the outgoing Deputy Chairman will receive payment in respect of consulting services in the amount of NIS 36 thousand per month for 36 months.

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

8. Loans granted under terms similar to those offered to all employees of the Company; amounts determined based on uniform criteria.

9. Data represent credit-card balances during the ordinary course of business as of December 31.

Remuneration of Auditors(1)(2)

	Consolidated		The Company	
	2010	2009*	2010	2009*
	(NIS thousands)			
For audit activities(3):				
Joint auditors	1,713	1,512	1,651	1,500
Other auditor	50	50	-	-
Total	1,763	1,562	1,651	1,500
For audit-related services(4):				
Joint auditors	-	-	-	-
Other auditor	2	1	-	-
For tax services(5):				
Joint auditors	106	56	106	56
For other services(6):				
Joint auditors	451	37	450	36
Total	559	94	556	92
Total remuneration of auditors	**2,322**	**1,656**	**2,207**	**1,592**

(1) Report by the Board of Directors to the annual general assembly on the remuneration of auditors for audit activities and for services in addition to the audit, pursuant to sections 165 and 167 of the Companies Law, 5759-1999.

(2) Includes remuneration paid and remuneration accrued.

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

(4) Audit-related fees – mainly includes prospectuses, special approvals, and guidance in the adjustment of the format of the financial statements to the Public Reporting Directives of the Bank of Israel.

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

(6) Mainly includes routine processes.

* Reclassified.

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

Tel Aviv, February 28, 2011.

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2010

Table of Contents

Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2010	**2009**	**2008**	**2007**	**2006**
Assets					
Cash on hand and deposits with banks	92	493	931	1,309	1,495
Debtors in respect of credit-card activity	11,865	10,515	9,251	8,727	7,880
Securities	74	178	212	113	12
Investments in affiliated companies	3	2	21	21	13
Buildings and equipment	268	254	224	195	159
Other assets	191	179(1)	94(1)	71(1)	44(1)
Total assets	**12,493**	**11,621**	**10,733**	**10,436**	**9,603**
Liabilities					
Credit from banking corporations	76	47	6	13	4
Creditors in respect of credit-card activity	10,819	10,274(1)	9,429(1)	9,178(1)	8,508(1)
Other liabilities	315	220	387	410	397
Total liabilities	**11,210**	**10,541**	**9,822**	**9,601**	**8,909**
Minority interests' rights	6	5	-	-	-
Shareholders' equity	1,277	1,075(1)	911(1)	835(1)	694(1)
Total liabilities and capital	**12,493**	**11,621**	**10,733**	**10,436**	**9,603**

(1) Restated; see Note 1DD.

Consolidated Statements 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**
Income					
From credit-card transactions	1,194	1,105	**1,092	**1,033	**970
Profit from financing activity before provision for doubtful debts	99	68	74	57	53
Others	35	30	48	18	16
Total income	**1,328**	**1,203**	**1,214**	**1,108**	**1,037**
Expenses					
Provision for doubtful debts	38	29	14	7	5
Operating expenses	469	389	**351	**312	**290
Sales and marketing expenses	109	142(1)	145(1)	209(1)	142
General and administrative expenses	66	69	51	44	41
Payments to banks	392	372(1)	416(1)	359(1)	386
Total expenses	**1,074**	**1,001**	**977**	**931**	**862**
Operating profit before taxes	**254**	**202**	**237**	**177**	**175**
Provision for taxes on operating profit	68	55(1)	64(1)	48(1)	55
Operating profit after taxes	**186**	**147**	**173**	**129**	**120**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	*-	*-
Minority interests' share in net operating losses (profits) after taxes of consolidated companies	(1)	1	-	-	-
Net profit	**185**	**148**	**173**	**129**	**120**
Basic and diluted net profit per common share (in NIS)	**253**	**201(1)**	**235(1)**	**191(1)**	**167**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1X.

(1) Restated; see Note 1DD.

Rates of Income and Expenses on a Consolidated Basis

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[3][4]	11,141	98	0.88	
Effect of derivatives				
ALM derivatives	50	-		-
Total	**11,191**	**98**	**0.88**	**0.88**
Liabilities[3]	10,151	(12)	(0.12)	
Effect of derivatives				
ALM derivatives	52	(*-)		-
Total	**10,203**	**(12)**	**(0.12)**	**(0.12)**
Interest-rate gap			**0.76**	**0.76**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	106	*-	-	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**106**	***-**	**-**	**-**
Liabilities(3)	55	-	-	-
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**55**	**-**	**-**	**-**
Interest-rate gap			**-**	**-**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[3][4]	95	7	7.37	
Effect of derivatives				
ALM derivatives	2	(*-)	-	-
Total	**97**	**7**	**7.37**	**7.22**
Liabilities[3][4]	89	6	6.74	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**89**	**6**	**6.74**	**6.74**
Interest-rate gap			**14.11**	**13.96**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income(3)(4)	11,342	105	0.93	
Effect of derivatives				
ALM derivatives	52	(*-)	-	-
Total	**11,394**	**105**	**0.93**	**0.93**
Monetary liabilities generating financing expenses(3)	10,295	(6)	(0.06)	
Effect of derivatives				
ALM derivatives	52	-	-	-
Total	**10,347**	**(6)**	**(0.06)**	**(0.06)**
Interest-rate gap			**0.87**	**0.87**
Fees from financing business and other financing income		-		
Other financing expenses		-		
Profit from financing activity before provision for doubtful debts		99		
Provision for doubtful debts		(38)		
Profit from financing activity after provision for doubtful debts		**61**		

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010
	Average balance[(1)(2)]
	NIS millions
Monetary assets generating financing income[(3)(4)]	11,342
Assets arising from derivative instruments[(5)]	52
Other monetary assets	34
Group provision for doubtful debts	(17)
Total monetary assets	**11,411**
Monetary liabilities generating financing expenses[(3)]	10,295
Liabilities arising from derivative instruments[(5)]	52
Other monetary liabilities	192
Total monetary liabilities	**10,539**
Total surplus of monetary assets over monetary liabilities	872
Non-monetary assets	359
Non-monetary liabilities	87
Total capital means	**1,144**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

(5) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity(4)				
Assets(3)	25	2	8.00	
Effect of derivatives				
ALM derivatives	1	(*-)		-
Total	**26**	**2**	**8.00**	**7.69**
Liabilities(3)	24	2	8.33	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**24**	**2**	**8.33**	**8.33**
Interest-rate gap			**16.33**	**16.02**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	10,261	57	0.56	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**10,261**	**57**	**0.56**	**0.56**
Liabilities(3)	9,667	(6)	(0.06)	
Effect of derivatives				
ALM derivatives	8	*-	-	-
Total	**9,675**	**(6)**	**(0.06)**	**(0.06)**
Interest-rate gap			**0.50**	**0.50**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	202	7	3.47	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**202**	**7**	**3.47**	**3.47**
Liabilities(3)	48	-	-	-
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**48**	**-**	**-**	**-**
Interest-rate gap			**3.47**	**3.47**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	115	6	5.22	
Effect of derivatives				
ALM derivatives	8	*-	-	-
Total	**123**	**6**	**5.22**	**4.88**
Liabilities(3)(4)	79	4	5.06	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**79**	**4**	**5.06**	**5.06**
Interest-rate gap			**10.28**	**9.94**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income[3][4]	10,578	70	0.66	
Effect of derivatives				
ALM derivatives	8	*-	-	-
Total	**10,586**	**70**	**0.66**	**0.66**
Monetary liabilities generating financing expenses[3]	9,794	(2)	(0.02)	
Effect of derivatives				
ALM derivatives	8	*-	-	-
Total	**9,802**	**(2)**	**(0.02)**	**(0.02)**
Interest-rate gap			**0.64**	**0.64**
Fees from financing business and other financing income		-		
Other financing expenses		-		
Profit from financing activity before provision for doubtful debts		68		
Provision for doubtful debts		(29)		
Profit from financing activity after provision for doubtful debts		**39**		

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009
	Average balance[(1)(2)]
	NIS millions
Monetary assets generating financing income[(3)(4)]	10,578
Assets arising from derivative instruments[(5)]	8
Other monetary assets	71
Group provision for doubtful debts	(10)
Total monetary assets	**10,647**
Monetary liabilities generating financing expenses[(3)]	9,794
Liabilities arising from derivative instruments[(5)]	8
Other monetary liabilities	176
Total monetary liabilities	**9,978**
Total surplus of monetary assets over monetary liabilities	669
Non-monetary assets	314
Non-monetary liabilities	7
Total capital means	**976**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

(5) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity(4)				
Assets(3)	29	2	6.89	
Effect of derivatives				
ALM derivatives	2	*-	-	-
Total	**31**	**2**	**6.89**	**6.45**
Liabilities(3)	20	1	5.00	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**20**	**1**	**5.00**	**5.00**
Interest-rate gap			**11.89**	**11.45**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as of December 31, 2010

Addendum 4

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	6,826	2,342	2,228	485	*-
Derivative financial instruments	20	-	50	40	-
Total fair value	**6,846**	**2,342**	**2,278**	**525**	*-
Financial liabilities:					
Financial liabilities	6,180	2,371	1,957	390	*-
Derivative financial instruments	24	-	-	96	-
Total fair value	**6,204**	**2,371**	**1,957**	**486**	*-
Financial instruments, net					
Exposure to changes in interest rates in the segment	642	(29)	321	39	*-
Cumulative exposure in the segment	642	613	934	973	973
Linked Israeli currency					
Financial assets:					
Financial assets	13	21	32	9	3
Total fair value	**13**	**21**	**32**	**9**	**3**
Financial liabilities:					
Financial liabilities	11	18	28	4	*-
Total fair value	**11**	**18**	**28**	**4**	*-
Financial instruments, net					
Exposure to changes in interest rates in the segment	2	3	4	5	3
Cumulative exposure in the segment	2	5	9	14	17

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	32	11,913	2.95	0.18
	-	-	110		0.74
	-	**32**	**12,023**		**0.19**
	-	5	10,903	2.58	0.18
	-	-	120		1.32
	-	**5**	**11,023**		**0.19**
	-	27	1,000		
	973	1,000			
	-	*-	78	0.42	0.62
	-	*-	**78**		**0.62**
	-	-	61	0.14	0.37
	-	**-**	**61**		**0.37**
	-	*-	17		
	17	17			

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	60	11	4	*-	-
Derivative financial assets	4	-	-	6	-
Total fair value	**64**	**11**	**4**	**6**	**-**
Financial liabilities:					
Financial liabilities	48	13	2	*-	-
Total fair value	**48**	**13**	**2**	*-	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	16	(2)	2	6	-
Cumulative exposure in the segment	16	14	16	22	22
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	6,899	2,374	2,264	494	3
Derivative financial instruments	24	-	50	46	-
Total fair value	**6,923**	**2,374**	**2,314**	**540**	**3**
Financial liabilities:					
Financial liabilities	6,239	2,402	1,987	394	-
Derivative financial instruments	24	-	-	96	-
Total fair value	**6,263**	**2,402**	**1,987**	**490**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	660	(28)	327	50	3
Cumulative exposure in the segment	660	632	959	1,009	1,012

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	58	133	0.44	0.05
	-	-	10		0.96
	-	**58**	**143**		**0.16**
	-	5	68	0.63	0.08
	-	**5**	**68**		**0.08**
	-	53	75		
	22	75			
	-	**90**	**12,124**	**2.89**	**0.18**
	-	-	120		0.76
	-	90	12,244		0.19
	-	**10**	**11,032**	**2.55**	**0.18**
	-	-	120		1.32
	-	10	11,152		0.19
	-	80	1,092		
	1,012	1,092			

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as of December 31, 2009

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	6,393	2,103	2,014	395	12
Derivative financial instruments	10	-	-	-	-
Total fair value	**6,403**	**2,103**	**2,014**	**395**	**12**
Financial liabilities:					
Financial liabilities	5,533	2,240	1,997	409	26
Derivative financial instruments	-	-	10	-	-
Total fair value	**5,533**	**2,240**	**2,007**	**409**	**26**
Financial instruments, net					
Exposure to changes in interest rates in the segment	870	(137)	7	(14)	(14)
Cumulative exposure in the segment	870	733	740	726	712
Linked Israeli currency					
Financial assets:					
Financial assets	33	13	112	3	7
Total fair value	**33**	**13**	**112**	**3**	**7**
Financial liabilities:					
Financial liabilities	25	13	11	2	*-
Total fair value	**25**	**13**	**11**	**2**	***-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	8	*-	101	1	7
Cumulative exposure in the segment	8	8	109	110	117

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	93	11,010	1.86	0.21
	-	-	10		0.01
	-	**93**	**11,020**		**0.21**
	36	12	10,253	1.65	0.23
	-	-	10		0.73
	36	**12**	**10,263**		**0.23**
	(36)	81	757		
	676	757			
	-	-	168	0.50	0.25
	-	**-**	**168**	**0.50**	**0.25**
	-	-	51	1.29	0.22
	-	**-**	**51**	**1.29**	**0.22**
	-	-	117		
	117	117			

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as of December 31, 2009 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	67	14	16	2	-
Total fair value	**67**	**14**	**16**	**2**	**-**
Financial liabilities:					
Financial liabilities	33	11	10	2	-
Total fair value	**33**	**11**	**10**	**2**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	34	3	6	-	-
Cumulative exposure in the segment	34	37	43	43	43
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	6,493	2,130	2,142	400	19
Derivative financial instruments	10	-	-	-	-
Total fair value	**6,503**	**2,130**	**2,142**	**400**	**19**
Financial liabilities:					
Financial liabilities	5,591	2,264	2,018	413	26
Derivative financial instruments	-	-	10	-	-
Total fair value	**5,591**	**2,264**	**2,028**	**413**	**26**
Financial instruments, net					
Exposure to changes in interest rates in the segment	912	(134)	114	(13)	(7)
Cumulative exposure in the segment	912	778	892	879	872

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	99	1.29	0.14
	-	**-**	**99**	**1.29**	**0.14**
	-	13	69	1.13	0.26
	-	**13**	**69**	**1.13**	**0.26**
	-	(13)	30		
	43	30			
	-	**93**	**11,277**	**1.79**	**0.21**
	-	-	10		0.01
	-	93	11,287		0.21
	36	**25**	**10,373**	**1.65**	**0.23**
	-	-	10		0.73
	36	25	10,383		0.23
	(36)	68	904		
	836	904			

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

Addendum 5

Reported amounts

In NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	92	87	84	495
Debtors in respect of credit-card activity	11,865	11,290	10,702	10,913
Securities	74	76	72	124
Investments in affiliated companies	3	2	2	2
Buildings and equipment	268	264	267	264
Other assets	191	190(1)	207(1)	207(1)
Total assets	**12,493**	**11,909**	**11,334**	**12,005**
Liabilities				
Credit from banking corporations	76	105	106	611
Creditors in respect of credit-card activity	10,819	10,206(1)	9,733(1)	9,998(1)
Other liabilities	315	376	331	263
Total liabilities	**11,210**	**10,687**	**10,170**	**10,872**
Minority interests' rights	6	5	5	5
Shareholders' equity	1,277	1,217(1)	1,159(1)	1,128(1)
Total liabilities and capital	**12,493**	**11,909**	**11,334**	**12,005**

(1) Restated; see Note 1DD.

* Reclassified.

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

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2009			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	493	326	661	810
Debtors in respect of credit-card activity	10,515	10,298	9,601	9,121
Securities	178	316	343	422
Investments in affiliated companies	2	*-	22	22
Buildings and equipment	254	252	252	245
Other assets	179(1)	158(1)	110(1)	95(1)
Total assets	**11,621**	**11,350**	**10,989**	**10,715**
Liabilities				
Credit from banking corporations	47	52	6	4
Creditors in respect of credit-card activity	10,274(1)	10,025(1)	9,596(1)	9,329(1)
Other liabilities	220	222	395	426
Total liabilities	**10,541**	**10,299**	**9,997**	**9,759**
Minority interests' rights	5	5	-	-
Shareholders' equity	1,075(1)	1,046(1)	992(1)	956(1)
Total liabilities and capital	**11,621**	**11,350**	**10,989**	**10,715**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1DD.

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

In NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	308	313	289	**284
Profit from financing activity before provision for doubtful debts	29	28	25	17
Others	11	9	8	7
Total income	**348**	**350**	**322**	**308**
Expenses				
Provision for doubtful debts	12	13	7	6
Operating expenses	127	115	113	**114
Sales and marketing expenses	(3)	40(1)	38(1)	34(1)
General and administrative expenses	17	18	15	16
Payments to banks	112	95(1)	94	91(1)
Total expenses	**265**	**281**	**267**	**261**
Operating profit before taxes	**83**	**69**	**55**	**47**
Provision for taxes on operating profit	23	18(1)	16(1)	11(1)
Operating profit after taxes	**60**	**51**	**39**	**36**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	-	-	-	-
Minority interests' share in net operating losses (profits) after taxes of consolidated companies	(1)	*-	(*-)	*-
Net profit	**59**	**51**	**39**	**36**
Basic and diluted net profit per common share (in NIS)	**81**	**70**	**53**	**49**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1X.

(1) Restated; see Note 1DD.

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

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2009			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions**	282	292	272	259
Profit from financing activity before provision for doubtful debts	20	17	15	16
Others	7	7	10	6
Total income	**309**	**316**	**297**	**281**
Expenses				
Provision for doubtful debts	8	6	9	6
Operating expenses(1)**	107	97	96	89
Sales and marketing expenses	49(1)	33(1)	32(1)	28(1)
General and administrative expenses	18	18	18	15
Payments to banks	90(1)	98(1)	89	95
Total expenses	**272**	**252**	**244**	**233**
Operating profit before taxes	**37**	**64**	**53**	**48**
Provision for taxes on operating profit	12(1)	17(1)	15(1)	11
Operating profit after taxes	**25**	**47**	**38**	**37**
The Company's share in operating profits of affiliated companies, after tax effects	*-	*-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	1	*-	-	-
Net profit	**26**	**47**	**38**	**37**
Basic and diluted net profit per common share (in NIS)	**35(1)**	**64(1)**	**52**	**50**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1X.

(1) Restated; see Note 1DD.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, 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 Isracard 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, 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 Isracard 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 162. 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

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2010

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Auditors' Report to the Shareholders of Isracard 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 Isracard Ltd. and its subsidiaries (hereinafter, jointly: "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 consolidated 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, while drawing attention to Note 18C to the financial statements concerning antitrust issues, Note 18E2 concerning legal proceedings and pending claims, and Note 1DD concerning the restatement of an amended calculation of the estimated provision in respect of gift offers (the loyalty program).

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

Tel Aviv, February 28, 2011

BDO ZIV HAFT

KPMG

Somekh Chaikin

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

We have audited the accompanying balance sheets of Isracard Ltd. (hereinafter: "the Company") as of December 31, 2010 and 2009 and the consolidated balance sheets as of those dates, and the statements of profit and loss, reports on changes in shareholders' equity, and statements of cash flows, of the Company and consolidated, 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 and consolidated, as of December 31, 2010 and 2009, and the results of operations, changes in shareholders' equity, and cash flows, of the Company and consolidated, 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.

Without qualifying our aforesaid opinion, we draw attention to Note 18C to the financial statements regarding antitrust issues, Note 18E2 regarding legal proceedings and pending claims, and Note 1DD regarding the restatement of an amended calculation of the estimated provision in respect of gift offers (the loyalty program).

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

Tel-Aviv, February 28, 2011

Balance Sheets

Reported amounts

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2010	2009	2010	2009
Assets					
Cash on hand and deposits with banks	3	92	493	65	473
Debtors in respect of credit-card activity	4, 5, 6	11,865	10,515	10,604	9,779
Securities	7	74	178	74	178
Investments in investee companies (consolidated: in affiliates)	8	3	2	365	285
Buildings and equipment	9	268	254	180	165
Other assets	10	191	*179	1,573	*873
Total assets		**12,493**	**11,621**	**12,861**	**11,753**
Liabilities					
Credit from banking corporations	11	76	47	15	25
Creditors in respect of credit-card activity	12	10,819	*10,274	11,094	*10,274
Other liabilities	13	315	220	475	379
Total liabilities		**11,210**	**10,541**	**11,584**	**10,678**
Contingent liabilities and special agreements	18				
Minority interests		6	5	-	-
Shareholders' equity	14	1,277	*1,075	1,277	*1,075
Total liabilities and capital		**12,493**	**11,621**	**12,861**	**11,753**

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

* Restated; see Note 1DD.

Irit Izakson	**Dov Kotler**	**Sigal Barmac**
Chairman 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	Consolidated			The Company		
		For the year ended December 31			For the year ended December 31		
		2010	2009	2008	2010	2009	2008
Income							
From credit-card transactions	21	1,194	1,105	**1,092	1,196	1,106	1,092
Profit from financing activity before provision for doubtful debts	22	99	68	74	34	31	54
Others	23	35	30	48	32	27	44
Total income		**1,328**	**1,203**	**1,214**	**1,262**	**1,164**	**1,190**
Expenses							
Provision for doubtful debts	5	38	29	14	11	6	1
Operating expenses	24	469	389	**351	459	388	352
Sales and marketing expenses	25	109	142(1)	145(1)	104	140(1)	143(1)
General and administrative expenses	26	66	69	51	63	68	50
Payments to banks	18H	392	372(1)	416(1)	392	372(1)	416(1)
Total expenses		**1,074**	**1,001**	**977**	**1,029**	**974**	**962**
Operating profit before taxes		**254**	**202**	**237**	**233**	**190**	**228**
Provision for taxes on operating profit	27	68	55(1)	64(1)	59	51(1)	61(1)
Operating profit after taxes		**186**	**147**	**173**	**174**	**139**	**167**
The Company's share in operating profits of investee companies (consolidated: affiliates), after tax effects		*-	*-	*-	11	9	6
Minority interests' share in net operating losses (profits) after taxes of a consolidated company		(1)	1	-	-	-	-
Annual net profit		**185**	**148**	**173**	**185**	**148**	**173**
Basic and diluted net profit per common share (in NIS)		**253**	**201**(1)	**235**(1)	**253**	**201**(1)	**235**(1)
Number of common shares used in calculation		733,198	733,198	733,198	733,198	733,198	733,198

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1X.

(1) Restated; see Note 1DD.

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	For the year ended December 31, 2010							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2010**	***-**	**9**	**13**	**22**	***-**	**-**	**1,053**	**1,075**
Annual net profit	-	-	-	-	-	-	185	185
Benefit from controlling shareholder, net	-	-	*-	*-	-	-	(1)	(1)
Benefit for share-based payment transactions	-	-	5	5	-	-	-	5
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	9	-	-	9
Effect of related tax	-	-	-	-	(1)	-	-	(1)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss	-	-	-	-	(*-)	-	-	(*-)
Losses from cash-flow hedging	-	-	-	-	-	-	-	-
Effect of related tax	-	-	-	-	-	-	-	-
Benefit due to share allocation	-	5	-	5	-	-	-	5
Balance as of Dec. 31, 2010	*-	**14**	**18**	**32**	**8**	**-**	**1,237**	**1,277**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

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

Report on Changes in Shareholders' Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2009							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2009**	***-**	**5**	**3**	**8**	**(2)**	***-**	**905**	**911**
Annual net profit	-	-	-	-	-	-	**148	148
Benefit from controlling shareholder, net	-	-	*-	*-	-	-	-	*-
Benefit for share-based payment transactions	-	-	10	10	-	-	-	10
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	1	-	-	1
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss	-	-	-	-	2	-	-	2
Effect of related tax	-	-	-	-	(1)	-	-	(1)
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation	-	4	-	4	-	-	-	4
Balance as of Dec. 31, 2009	***-**	**9**	**13**	**22**	***-**	**-**	**1,053**	**1,075**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

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

Report on Changes in Shareholders' Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2008							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2008**	***-**	**1**	**2**	**3**	***-**	***-**	**832**	**835**
Annual net profit	-	-	-	-	-	-	**173	173
Dividend paid	-	-	-	-	-	-	(100)	(100)
Benefit for share-based payment transactions	-	-	1	1	-	-	-	1
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(3)	-	-	(3)
Effect of related tax	-	-	-	-	1	-	-	1
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation	-	4	-	4	-	-	-	4
Balance as of Dec. 31, 2008	***-**	**5**	**3**	**8**	**(2)**	***-**	**905**	**911**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

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

Statement of Cash Flows

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
Cash flows from operating activity						
Annual net profit	**185**	**148(1)**	**173(1)**	**185**	**148(1)**	**173(1)**
Adjustments required to present operating cash flows:						
Minority interests' share in net (losses) profits of a consolidated company	1	(1)	-	-	-	-
The Company's share in undistributed profits of investee companies (consolidated: affiliates)	(*-)	(*-)	(*-)	(11)	(9)	(6)
Depreciation of buildings and equipment	71	55	42	68	54	39
Write-downs	3	*-	-	-	-	-
Provision for doubtful debts	19	22	11	(2)	3	-
Profit from realization and adjustment of securities available for sale	*-	(11)	(31)	*-	(11)	(31)
Loss from realization of buildings and equipment	*-	*-	*-	*-	*-	*-
Deferred taxes, net	-	(15)(1)	(7)(1)	5	(8)(1)	(3)(1)
Retirement compensation – increase (decrease) in surplus of provision over amount funded	1	(10)	19	1	(10)	19
Revaluation of deposits with banking corporations	1	*-	(4)	1	*-	(4)
Benefit due to share-based payment transactions	5	10	1	5	10	1
Benefit due to share allocation	5	4	4	5	4	4
Decrease (increase) in other assets	15	(30)(1)	(15)(1)	(705)	(270)(1)	(218)(1)
Increase (decrease) in other liabilities	93	21	(43)	94	18	(48)
Net cash from operating activity	**399**	**193**	**150**	**(354)**	**(71)**	**(74)**

Statement of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
Cash flows for activity in assets						
Deposits with banks**	(11)	(18)	(22)	(11)	(18)	(22)
Withdrawal of deposits from banks**	13	21	170	13	21	170
Decrease (increase) in credit to cardholders and merchants, net	(30)	(367)	(339)	79	(130)	(186)
Increase in debtors in respect of credit-card activity, net	(960)	(919)	(196)	(902)	(907)	(214)
Increase in debtors in respect of factoring	(29)	(12)	-	-	-	-
Purchase of securities available for sale	-	(285)	(147)	-	(285)	(147)
Acquisition of buildings and equipment	(83)	(85)	(71)	(83)	(85)	(71)
Proceeds of realization of securities available for sale	77	333	77	77	333	77
Proceeds of redemption of securities available for sale	35	-	-	35	-	-
Proceeds of realization of buildings and equipment	*-	*-	*-	*-	*-	*-
Proceeds of realization of investments in affiliated companies	-	15	-	-	15	-
Acquisition of consolidated companies consolidated for the first time (Appendix A)	(71)	(182)	-	-	-	-
Investment in capital note of investee company (consolidated: affiliate)	-	-	-	(65)	-	-
Maturity of capital note of investee company	-	-	-	2	9	8
Purchase of shares of affiliated company	(1)	(2)	-	(6)	(192)	-
Net cash used for activity in assets	**(1,060)**	**(1,501)**	**(528)**	**(861)**	**(1,239)**	**(385)**

* Amount lower than NIS 0.5 million.

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

(1) Restated; see Note 1DD.

Statement of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
Cash flows from activity in liabilities and capital						
Short-term credit from banking corporations, net	(538)	28	(7)	(10)	20	(6)
Increase in creditors in respect of credit-card activity, net	801	(1)845	(1)251	820	(1)845	(1)330
Settlement of a liability for a forward contract	-	(1)	-	-	(1)	-
Benefit for the Company's shareholders	-	-	(100)	-	-	(100)
Net cash from activity in liabilities and capital	263	872	144	810	864	224
Decrease in cash and cash equivalents	**(398)**	**(436)**	**(234)**	**(405)**	**(446)**	**(235)**
Balance of cash and cash equivalents at beginning of year	**475**	**911**	**1,145**	**455**	**901**	**1,136**
Balance of cash and cash equivalents at end of year	**77**	**475**	**911**	**50**	**455**	**901**

(1) Restated; see Note 1DD.

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
Appendix A						
Acquisition of subsidiaries consolidated for the first time						
Assets and liabilities of the consolidated subsidiaries at the acquisition date:						
Assets, excluding cash in the amount of NIS 10 million	(380)	(11)	-	-	-	-
Liabilities of the Company at initial consolidation						
Liabilities	309	(166)	-	-	-	-
Minority interests	-	5	-	-	-	-
Goodwill	-	(10)				
Cash flow for acquisition of subsidiaries consolidated for the first time	**(71)**	**(182)**	**-**	**-**	**-**	**-**

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

Note 1 – Reporting Rules and Significant Accounting Policies

A. General

1. Isracard Ltd. (hereinafter: the "**Company**") was established and incorporated in 1975 and is under the control of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 5741-1981.

   The Company is primarily engaged in issuing and acquiring Isracard and MasterCard brand credit-card transactions, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd., and of its sister companies Poalim Express Ltd. and Aminit Ltd.

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

B. Definitions

In these financial statements:

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
5. Affiliated companies – Companies other than consolidated companies, the Company's investment in which is included in the Company's statements based on the equity method.
6. Investee companies – Consolidated or affiliated companies.
7. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
8. Interested parties – As defined in Paragraph 1 of the definition of an "interested party" of a corporation in Section 1 of the Securities Law, 5728-1968.
9. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 5756-1996.
10. CPI – The consumer price index published by the Central Bureau of Statistics.
11. USD – United States dollar.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

B. Definitions (cont.)

12. 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

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

14. 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.

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

16. 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.

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

C. 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 29 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 Israeli 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 1 – Reporting Rules and Significant Accounting Policies (cont.)

D. Functional Currency and Presentation Currency

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

E. Reporting Principles

1. Balance sheets

   (A) The balance-sheet value of investments in investee companies is determined based on the financial statements in reported amounts.

   (B) Other non-monetary items are presented in reported amounts.

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

2. Statements of profit and loss

   (A) The Company's share in the results of operations of investee companies and minority interests' share in the results of consolidated companies are determined based on the financial statements in reported amounts of such companies.

   (B) 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.

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

3. Reports on changes in shareholders' equity

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

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

F. 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.

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)	(0.7)	(1.1)

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

F. Linkage and Foreign Currency (cont.)

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 external activities 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.

G. 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.

H. Statement of Cash Flows

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

The item of cash on hand and deposits with banks includes, among other things, cash and deposits with banks with an original duration of up to three months.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

I. Basis for Consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the ability to determine the financial and operational policy of the entity in order to obtain benefits from its resources and activities. Control exists when the Company, directly or indirectly, holds shares granting more than 50% of the voting rights in the subsidiary and the rights to appoint a majority of the members of its board of directors, unless there are circumstances that expressly prevent the parent company from exercising its control in practice.

The consolidated financial statements include the financial statements of the Company and of the entities under the Company's control. Financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained to the date on which control ceases. The accounting policies of the subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Company.

The surplus of the cost of acquisition of an investment in a subsidiary over the Company's share in the fair value of its identifiable assets (including intangible assets), net of the fair value of its identifiable liabilities (after tax attribution) at the acquisition date, constitutes goodwill. Goodwill is presented under "other assets" and depreciated using the straight-line method over 10 years.

2. Affiliates

Affiliates are entities in which the Group has a material influence on financial and operational policy, but has not obtained control. Investments in affiliates are treated according to the equity method and recognized for the first time at cost. The investment is presented net of accrued losses from impairment. The consolidated financial statements include the Company's share in income and expenses of equity-basis investees, from the date on which the material influence exists, to the date when the material influence ceases to exist. The accounting policies of the affiliates were changed, where necessary, in order to adjust them to the accounting policies adopted by the Company.

The Company's share in the financial results of these companies is stated after depreciation of the surplus cost created by their acquisition. The surplus cost attributed to assets and liabilities is depreciated over useful life of the asset.

When the Company's share in losses exceeds the value of the Company's rights in an affiliate, the book value of such rights is written down to zero, and the Company does not recognize further losses, unless the Company is a guarantor for obligations of the affiliate, or has another obligation to provide financial support to the affiliate.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

I. Basis for Consolidation (cont.)

3. Transactions cancelled in consolidation

Mutual balances in the Group and unrealized income and expenses arising from mutual transactions were cancelled in the preparation of the consolidated financial statements. Unrealized profits arising from transactions with affiliates were cancelled against the investment, according to the Group's rights in such investments. Unrealized losses were cancelled in the same manner as unrealized profits, as long as the loss did not reflect evidence of impairment.

J. Securities

Securities held by the Company are classified by the Company as securities available for sale. Accordingly, the securities are presented in the balance sheet at fair value, which is usually based on stock-market rates, other than shares for which no fair value is available, which are presented at cost. Losses from other-than-temporary impairment are allocated to the statement of profit and loss. Unrealized profits or losses from adjustment to fair value net of tax are recorded directly in a separate item within shareholders' equity, and are transferred to the statement of profit and loss upon realization or redemption.

The Company examines, in each reporting period, whether other-than-temporary impairment has occurred in its permanent investments in other companies. This examination is performed when signs exist that may indicate the possibility that the value of the permanent investments has been impaired, including a decline in stock-market prices, in the investee's business, or in the industry in which the investee operates, and other parameters. The deductions for the adjustments of the value of these investments, which in the opinion of Management are based on an examination of all relevant aspects, with appropriate weight granted to each, which are not of a temporary nature, are allocated to the statement of profit and loss. The cost of securities realized is calculated on a "first in - first out" basis.

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

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

L. Offsetting Financial Instruments

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

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

M. Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Company applies the measurement and disclosure rules set forth in the American accounting standard FAS 140 (ASC 860-10), “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” as amended by FAS 166 (ASC 860-10), “Accounting for Transfers of Financial Assets,” with regard to the accounting treatment of transfers of financial assets and extinguishment of liabilities.

Pursuant to these rules, transfers of financial assets are accounted for as sales if and only if all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or in asset-backed financing activity, and that entity is barred from pledging or exchanging the financial assets which it receives – any third party holding beneficiary rights) may pledge or exchange the assets (or the beneficiary rights) received, and there is no term that also restricts the recipient (or the third party holding beneficiary rights) from exercising the right to pledge or exchange, and grants the transferring party a benefit that is more than trivial; (3) the transferring party, or consolidated companies included in its financial statements, or its agents, do not retain effective control of the financial assets or of the beneficiary rights referring to the transferred assets.

In addition, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the full financial assets; all cash flows obtained from the assets are distributed between the participatory rights in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participatory rights (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participatory rights); and the transferring party and the holder of participatory rights have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participatory rights agree to pledge or exchange the financial asset in its entirety.

If the transaction complies with the conditions for treatment of a transaction as a sale, the transferred financial assets are derecognized in the balance sheet of the Company. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participatory right is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Company, and the consideration from the sale is recognized as a liability of the Company.

Therefore, securities sold under agreements to repurchase or purchased under agreements to resell, securities borrowed or lent, and other financial instruments transferred or received by the Company, where the Company has not lost control of the transferred asset or has not gained control of the asset received, are treated as secured debt.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

N. Provision for Doubtful Debts

The financial statements include specific provisions for doubtful debts that fairly reflect, according to the assessment by Management, the loss inherent in debts whose collection is in doubt. In determining the fairness of the provisions, Management relies, among other factors, on a risk assessment based on the information available to it with regard to debtors' financial position and volume of activity, an evaluation of collateral received from debtors, and past experience. Doubtful debts which Management believes there is no chance of collecting are written off, according to Management's decision.

The financial statements also include a group provision for doubtful debts, calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision.

Write-offs of bad debts are carried out when the Company has determined that the debt is uncollectible, following legal proceedings undertaken or as a result of agreements or arrangements, usually in cases in which no legal proceedings were undertaken, and the debts are not collectible, or due to other reasons for which the debts are uncollectible.

O. Provision for Gift Offers (Loyalty Programs) for Credit-Card Holders

The financial statements include a provision for gift offers (the Stars loyalty program) for cardholders. The provision made in the books represents a provision at a rate of approximately 48% of the balance of unused Stars as of the end of 2010.

In December 2010, the Company notified its customers of the extension of the loyalty program until May 2011. Customers will receive a reminder during March 2011 informing them that they can accumulate Stars within the program until the debiting date in May 2011, and that such accumulated Stars can be used until December 31, 2011.

During the coming months, the Company will announce a new program, and will notify its customers accordingly.

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

1. The Company engaged a statistics expert to determine the rate of the provision in respect of the future use of Stars. The Company adopted a conservative approach, which also takes into account heightened usage due to the termination of the loyalty program.

2. Price of Stars – based on the actual average cost per Star as of the end of the year.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

P. Buildings and Equipment

1. Fixed-asset items are recognized for the first time at cost, including costs directly attributable to the acquisition of the asset.

2. In periods subsequent to the initial recognition, these items are stated at cost, less accrued depreciation, and less losses from decline in value. Profit or loss from the derecognition of a fixed-asset item are determined by comparing the consideration of the derecognition of the asset to its book value, and are included in the item "profit from extraordinary transactions after tax" in the statement of profit and loss.

3. Depreciation and depreciation method:

   (A) The Company separately depreciates each part of an asset with a significant cost relative to the total cost of the item. Depreciation expenses for each period are recognized in the statement of profit and loss, or capitalized to another asset, in accordance with generally accepted accounting principles.

   (B) The Company uses the "straight-line method" to allocate the depreciable amount of the asset systematically over its useful life. The depreciation method used reflects the forecast pattern for the consumption of future economic benefits of the asset.

   (C) Estimates regarding the depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and are adjusted when necessary.

4. Improvements to rented properties are depreciated over the rental period, including the option period, or over their useful life, whichever is shorter.

5. Annual depreciation rates:

	%
Buildings and land	0-2
Installations and improvements to rental properties	2-10
Computers and peripheral equipment	20-33
Software costs	20-25
Furniture and office equipment	6-20
Vehicles	15
Other equipment	0

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

P. Buildings and Equipment (cont.)

6. Costs of the development of software for internal use are handled in accordance with Standard 30, "Intangible Assets," and are included in the item "buildings and equipment." Costs of the development of software for internal use are capitalized after completion of the preliminary planning stage, when the expectation is that the project will be completed and the software will be used to fulfill its intended objectives. Capitalization is terminated when the software is essentially completed and ready for its intended use. Capitalized software development costs are depreciated using the straight-line method, based on the estimated useful life of the software.

Q. Intangible Assets

Goodwill

Goodwill generated by the acquisition of subsidiaries is included in the item "other assets." For details regarding the initial recognition of goodwill, see Section I (1) above.

Goodwill is measured at cost, less depreciation and losses from impairment. Goodwill in respect of equity-basis investments is included in the book value of the investment. Loss from impairment in respect of such investments is not attributed to any asset, including goodwill, that constitutes part of the book value of the investment.

R. Impairment of Non-Financial Assets

The book value of non-financial assets of the Company, excluding deferred tax assets, and including financial assets which are equity-basis investments, is examined at each reporting date in order to determine whether signs exist to indicate impairment. If such signs exist, an estimate of the recoverable amount of the asset is calculated. In periods subsequent to the first recognition date, the Company assesses, once annually on a fixed date for each asset, the recoverable amount of intangible assets with an undefined lifetime, or which are unavailable for use; or more frequently if signs of impairment exist.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

R. Impairment of Non-Financial Assets (cont.)

The recoverable amount of an asset or of a cash-generating unit is the higher of the use value and the net sale value (fair value net of selling expenses). In determining use value, the Company capitalizes the estimated future cash flows according to a pretax capitalization rate reflecting market estimates regarding the time value of the money and the specific risks related to the asset. For the purpose of examining impairment, assets which cannot be examined individually are aggregated into the smallest group of assets that generates cash flows from ongoing use, which are essentially non-dependent on other assets and groups (a "cash-generating unit"). For the purposes of examining impairment of goodwill, cash-generating units to which goodwill is allocated are aggregated such that the level at which the impairment is examined reflects the lowest level at which goodwill is monitored for internal reporting purposes, but is not larger than a segment of activity. Goodwill acquired in the course of the addition of businesses is allocated to the cash-generating units expected to derive benefit from the synergy arising from the addition.

Assets of the headquarters of the Company do not generate separate cash flows. If there are signs of impairment of an asset belonging to the headquarters of the Company, the recoverable amount of the group of cash-generating units served by the headquarters is determined.

Losses from impairment are recognized when the book value of the asset or of the cash-generating unit to which the asset belongs exceeds the recoverable value, and are charged to profit and loss. Losses from impairment recognized with regard to cash-generating units are first allocated to the amortization of the book value of the goodwill attributed to such units, and subsequently to the amortization of the book value of the other assets in the cash-generating unit, proportionally.

Loss from the impairment of goodwill is not cancelled. With regard to other assets, losses from impairment recognized in previous periods are reexamined each reporting period, in order to test for signs that the losses have decreased or no longer exist. Losses from impairment are cancelled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

Goodwill which is part of an investment account in an affiliate is not recognized separately, and is therefore not examined separately for impairment. Impairment is examined with regard to the investment as a whole, when objective evidence pointing to impairment exists.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

S. 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 Group 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.

T. Share-Based Payment Transactions

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

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' eligibility for the payment is attained. The liability is re-measured at every reporting date, and at the date of settlement. Any change in the fair value of the liabilities is allocated as a wage expense in profit and loss.

In transactions in which the Parent Company grants employees of the Company rights to its capital instruments, the Company treats the grant as a share-based payment transaction settled in capital instruments; i.e., it recognizes the fair value of the grant directly in shareholders' equity, in accordance with the aforesaid.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

U. Employee Rights

Appropriate reserves according to law, customary practice, and Management expectations exist in respect of all liabilities due to employee-employer relations. Certain liabilities are calculated on an actuarial basis.

Severance-pay and pension liabilities are mostly covered by amounts funded deposited with provident funds for pension allowances and severance pay and with senior employees' insurance policies. A provision is included in the financial statements in respect of amounts of liabilities not covered in the aforesaid manner. See Note 15.

V. Contingent Liabilities

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

1. Probable risk – the probability of materialization of the exposure to risk is over 70%. Provisions are included in the financial statements with respect to claims in this risk group.
2. Reasonably possible risk – the probability of materialization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group; only disclosure is given.
3. Remote risk – the probability of materialization of the exposure to risk is under 20%. No provision was included in the financial statements in respect of claims in this risk group, and no disclosure is given.

Claims with regard to which the Supervisor of Banks has determined that the Company is required to make reimbursements are classified as probable, and a provision is made in respect of the claim, in the amount which the Company is required to reimburse.

W. Derivative Financial Instruments

1. Derivative financial instruments designated for protection are stated in the balance sheet at fair value. The effective part of changes in the fair value is allocated to the "capital reserves" item in the statement of changes in equity, in the period in which they occur.

   Recognition of income from derivatives:

   (A) The results of hedging transactions are allocated to the statement of profit and loss concurrently with the recording of results of the protected transactions and the protected items.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

W. Derivative Financial Instruments (cont.)

(B) Profits and losses arising from changes in the fair value of derivative financial instruments.

(C) In “firm commitment” hedging transactions, recognition of the results of the derivatives is deferred until the date of recognition of the commitment as an asset or liability in the balance sheet.

2. Economic hedging

The accounting treatment of hedging is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Company. Changes in the fair value of these derivatives are recognized in profit and loss upon formation.

X. Revenue Recognition

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

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

   The Company performed a reclassification in the financial statements, such that income from fees from merchants is presented net of expenses for fees to other issuers. This classification was performed due to the ongoing growth in activity in this area, and due to the fact that the other issuers are the principal debited party in the transaction, in accordance with Clarification No. 8 of the IASB.

   Until the first quarter of 2010, fees were presented based on the gross approach; i.e., income from merchant fees was presented without offsetting fees to other issuers, which were presented separately, as part of operating expenses.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

X. Revenue Recognition (cont.)

	Income from credit-card transactions		Operating expenses	
	For the year ended Dec. 31, 2009	For the year ended Dec. 31, 2008	For the year ended Dec. 31, 2009	For the year ended Dec. 31, 2008
	NIS millions			
	Audited		Audited	
Total income/expenses allocated to the statement of profit and loss before the change	1,168	1,146	452	405
Effect of the change	63	54	63	54
Total income/expenses allocated to the statement of profit and loss after the change	1,105	1,092	389	351

The classification had no effect on the results of financial operations.

3. Income from card fees, operating fees, and deferred-debit fees collected from cardholders are included in the statement of profit and loss on a cumulative basis. (The collection of operating fees ceased as of July 2008, pursuant to an amendment to the Banking Law (Customer Service)).
4. Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears; such interest is allocated to the statement of profit and loss based on actual collection.
5. Securities – see Section J above.

Y. 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

Z. Segmental Reporting

A segment of activity is a component of the Company engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Company is established in the Public Reporting Directives of the Supervisor of Banks. See also Note 28.

AA. Transactions with Controlling Parties

Asset Transfers

Differences between the consideration received from the sale of assets to a controlling party and the book value of the assets in the Company's books are allocated to a capital reserve of the Company. Assets acquired from a controlling party are recorded in the financial statements at their book value in the books of the controlling party at the date of transfer to the Company, and the difference relative to the amount paid for the assets, net of related taxes, is allocated to shareholders' equity.

BB. 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 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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.

CC. 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, 5728-1968 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:

- 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

- 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;

(9) IAS 28, Investments in Associates;

(10) IAS 36, Impairment of Assets;

(11) IAS 17, Leases;

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

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

(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;
- 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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 aforesaid standard. The initial implementation of the standard is not expected to have a material effect.

(B) IFRS 3 and IAS 27 change the required accounting treatment of some of the matters addressed by these standards. In addition, these standards clarify issues which were not previously addressed concerning business combinations and consolidated financial statements. The following is a review of the principal changes in the new standards:

(a) Transaction costs of an acquiring company in a business combination shall be recognized as an expense in the period in which they are created (with the exception of issuance costs), and shall not be recognized as part of the cost of the business combination.

(b) Additional purchases of shares of an investee company, after the attainment of control, shall be recognized as a transaction on the equity level.

(c) Realizations of shares of an investee company while retaining control shall be recognized as a transaction on the equity level.

(d) In the loss of control over an investee company, the balance of the investment in the company shall be measured at fair value at the date of the loss of control, and the difference shall be allocated to profit or loss for the period. The fair value shall constitute the cost for the purposes of accounting treatment in subsequent periods.

(e) Goodwill is no longer amortized, and an examination of impairment shall be performed annually.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

(f) Rights that do not grant control (formerly called minority interests) shall constitute part of shareholders' equity, and shall be measured at fair value at the acquisition date, against recognition of the entire goodwill of the acquired company.

(g) Profit or loss in a consolidated company shall be recognized in full in the Company's statements, with a division between the part attributed to the holders of equity rights in the Company and rights that do not grant control (formerly minority interests), even if this causes such rights to be presented as negative.

(h) Changes recognized directly in other comprehensive profit of the investee company shall be recognized in full in shareholders' equity, with a division between the part attributed to the Company and rights that do not grant control (even if this causes such rights to be presented as negative).

(i) In an acquisition in stages, the existing investment in the books of the holding company at the date of attainment of control shall be measured at fair value, with the difference between the book value and the fair value recognized in profit or loss for the period.

Pursuant to the directives of the Supervisor of Banks, the Company is permitted to implement the standard retroactively, or from this point forward, starting with the financial statements for periods beginning January 1, 2011. The Company has chosen to implement the standard from this point forward, starting with the financial statements for periods beginning January 1, 2011. Accordingly, the implementation of these standards is not expected to affect the financial statements.

(C) 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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

(D) IAS 28, Investments in Associates

Potential voting rights – According to Israeli GAAP, as adopted in the directives of the Supervisor of Banks, potential voting rights shall not be taken into consideration in establishing the existence of material influence. By contrast, under the international standards, certain potential voting rights are to be taken into consideration when establishing the existence of material influence. The standard will be implemented, from this point forward, starting with financial statements for periods beginning January 1, 2011.

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

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 will implement the provisions of the circular as of January 1, 2011, in accordance with the transitional directives and guidelines established by the Supervisor of Banks. The initial implementation of the directive will cause an increase in provisions for credit losses and accounting write-offs, in the amount of NIS 49 million. Deferred taxes will increase by NIS 10 million, so that the balance of retained earnings will decrease by NIS 39 million. The directive issued by the Supervisor of Banks on February 18, 2010 concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses requires the presentation of a pro-forma note detailing the effect of the new directives on the principal balance-sheet items in the consolidated statements as of December 31, 2010, provided that the directives were implemented as of that date. For details regarding the manner of implementation and the expected effect of the new directives, see Note 2 below.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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.

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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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.

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.

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:

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

- 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.

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.

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

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

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), 5756-1996, 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.

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 1 – Reporting Rules and Significant Accounting Policies (cont.)

DD.Restatement

The financial statements were adjusted, by restatement, to retroactively reflect an amendment of the calculation of the estimated provision in respect of gift offers (the Stars loyalty program) for credit-card holders. Prior to this amendment, the provision was performed for a period of use of the Stars only one year ahead, corresponding to the period of the rules of the offer, which were approved each year by the Board of Directors of the Company. Subsequent to the amendment, in accordance with the directives of the Bank of Israel, the provision was calculated under the assumption that the program is in effect for the long term, as of the dates presented in the financial statements (year-end 2009, 2008, and 2007).

1. Effect on the consolidated balance sheet as of December 31, 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Other assets	173	6	179
Provision for loyalty program	42	76	118
Payments to banks (others)	91	(51)	40
Shareholders' equity	1,094	(19)	1,075

2. Effect on the balance sheet of the Company as of December 31, 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Other assets	867	6	873
Provision for loyalty program	42	76	118
Payments to banks (others)	91	(51)	40
Shareholders' equity	1,094	(19)	1,075

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

DD.Restatement (cont.)

3. Effect on shareholders' equity as of December 31, 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Shareholders' equity	1,094	(19)	1,075

4. Effect on shareholders' equity as of December 31, 2008

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Shareholders' equity	924	(13)	911

5. Effect on shareholders' equity as of December 31, 2007

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Shareholders' equity	848	(13)	835

6. Effect on consolidated cash flows for 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Cash flows for operating activity	189	(8)	181
Cash flows from activity in liabilities and capital	864	8	872

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

DD.Restatement (cont.)

7. Effect on cash flows of the Company for 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Cash flows for operating activity	(63)	(8)	(71)
Cash flows from activity in liabilities and capital	856	8	864

8. Effect on capital adequacy for 2009

In percent

	As previously reported	Effect of restatement	As reported in these financial statements
Tier I capital ratio under Basel I	24.3	(0.5)	23.8
Total capital ratio under Basel I	24.3	(0.5)	23.8
Tier I capital ratio under Basel II	12.9	(0.3)	12.6
Tier II capital ratio under Basel II	12.9	(0.3)	12.6

9. Effect on net profit for the year ended December 31, 2009

Reported amounts, in NIS millions

	Consolidated	The Company
Profit as previously reported – pretax profit	210	198
Net profit previously reported	154	154
Increase in sales and marketing expenses	10	10
Decrease in payments to banks	(2)	(2)
Increase in taxes on income	(2)	(2)
Net profit as reported in these financial statements	148	148

Note 1 – Reporting Rules and Significant Accounting Policies (cont.)

DD.Restatement (cont.)

10. Effect on earnings per share for the year ended December 31, 2009

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Earnings per share	210	(9)	201

11. Effect on net profit for the year ended December 31, 2008

Reported amounts, in NIS millions

	Consolidated	The Company
Profit as previously reported – pretax profit	237	228
Net profit previously reported	173	173
Decrease in sales and marketing expenses	(*-)	(*-)
Increase in payments to banks	*-	*-
Increase in taxes on income	*-	*-
Net profit as reported in these financial statements	173	173

12. Effect on earnings per share for the year ended December 31, 2008

Reported amounts, in NIS millions

	As previously reported	Effect of restatement	As reported in these financial statements
Earnings per share	235	-	235

13. Effect on net profit by quarter for the year ended December 31, 2009 (unaudited)

Reported amounts, in NIS millions

	Q1	Q2	Q3	Q4
Net profit as previously reported	39	38	49	28
Increase in sales and marketing expenses	2	1	3	4
Decrease in payments to banks	(*-)	(*-)	(1)	(1)
Increase in taxes on income	(*-)	(1)	(*-)	(1)
Net profit after restatement	37	38	47	26

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010

Pursuant to the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and credit loss provisions, as of January 1, 2011, the Company is required to implement the US accounting standards (ASC 310) and the position statements of the banking supervision agencies in the United States and of the Securities and Exchange Commission in the Unites States, as adopted in the Public Reporting Directives.

Under this directive, the Company is required to maintain provisions for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. The directive applies to balance-sheet credit risk debt balances within its purview, such as deposits with banks, debtors in respect of credit-card activity, etc. In addition, the Company is required to maintain a provision in a separate liability account at an appropriate level to cover estimated credit losses related to off-balance-sheet credit instruments, such as contractual engagements to provide credit, unutilized credit facilities, and guarantees.

The required provision to cover estimated credit losses with respect to the credit portfolio is to be assessed by one of two methods: "individual provisions" and "group provisions." The Company is also required to examine the overall fairness of the provision for credit losses.

Individual provision for credit losses – The Company will individually examine all debts with a contractual balance (without deducting accounting write-offs that do not involve legal waivers, unrecognized interest, provisions for credit losses, and collateral) of NIS 500 thousand or more. An individual provision for credit losses shall be recognized for all debts classified as impaired. Debts shall be classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. In any case, debts are classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. In addition, any debt where terms have been changed in restructuring of problematic debt shall be classified as impaired debt and examined individually. The individual provision for credit losses shall be assessed based on expected future cash flows, discounted at the original effective interest rate of the debt.

Provision for credit losses assessed on a group basis – Applied to provisions for decline in value of large groups of small homogenous debts, and in respect of debts examined individually and found to be unimpaired. The group provision shall be calculated in accordance with the rules stipulated in FAS 5, Accounting for Contingencies (ASC 450, Contingencies), based on a current estimate of the rate of past losses in respect of each of the homogenous groups of debts with similar risk attributes. The formula for the calculation of the group provision, which is established in a temporary order of the Supervisor of Banks (in effect up to and including December 31, 2012), is based on historical rates of loss with regard to sound debts (including debts under the responsibility of banks), problematic debts, organizations, and credit-card companies. In addition, the Company performs a provision for credit losses in respect of off-balance-sheet items (unutilized credit facilities).

The Company shall not accrue interest income in respect of any debt in arrears. Such debts are defined by the Company as debts that do not accrue interest income.

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

In addition, the directive establishes various definitions and classifications of balance-sheet and off-balance-sheet credit risk (the Company shall classify all of its debts and off-balance-sheet credit items under the categories: good, under special supervision, inferior, or impaired), in accordance with the rules regarding accounting write-offs of problematic debts. Among other matters, the circular states that accounting write-offs should be performed for all individually examined debts, or parts of debts, thought to be uncollectible, of such low value that their retention as assets is unjustified, or debts in respect of which the Company has carried out prolonged collection efforts (a period exceeding two years). With regard to debts evaluated on a group basis, accounting write-off rules were established based on the period of arrears (more than 150 days of arrears). Accounting write-offs do not constitute a legal waiver of the debt on the part of the Company. The write-off shall adjust the balance of the debt reported in the financial statements only, while creating a new cost base for the debt in the Company's books.

The directive is to be implemented in financial statements for periods beginning January 1, 2011, or later. The directive shall not be implemented retroactively in financial statements for previous periods. At the initial implementation date, the Company shall, among other things:

- Perform accounting write-offs of all debts meeting the conditions for accounting write-offs on that date;
- Classify all debts meeting the conditions for such classification as under special supervision, inferior, or impaired;
- Adjust the balance of the provision for credit losses for debtors in respect of credit-card activity and for off-balance-sheet credit instruments as of January 1, 2011 to the requirements of the directive, including the requirements to establish a provision and the documentation requirements. Adjustments shall be included directly in the retained earnings item of shareholders' equity.

In addition, the balance of current and deferred taxes receivable and payable as of January 1, 2011 shall be adjusted. Adjustments arising from the aforesaid actions as of the initial implementation date shall be included in the retained earnings item of shareholders' equity.

The following pro-forma note details the expected effect of the initial adoption of this directive on December 31, 2010.

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

A. Effect of the Initial Implementation of the New Directives on the Principal Balance Sheet Items as of December 31, 2010

Reported amounts

In NIS millions

Audited

Table 1 – Summary of the Effect on Retained Earnings as of December 31, 2010

	December 31, 2010
Balance of retained earnings as of December 31, 2010 included in the financial statements	1,237
Cumulative effect net of tax of initial implementation of the new directives as of December 31, 2010	(39)
Of which:	
Change in provision for credit losses	(49)
Related tax effect	10
Balance of retained earnings as of December 31, 2010 under the new directives	1,198

Table 2 – Effect on Credit to the Public (Before Deduction of Credit Loss Provisions) as of December 31, 2010

	December 31, 2010
Balance of credit to the public (before deduction of provision for doubtful debts) as of December 31, 2010 included in the financial statements	11,944
Effect of initial implementation as of December 31, 2010 of the new directives:	
Net accounting write-offs recognized as of December 31, 2010*	(65)
Balance of credit to the public (before deduction of credit loss provisions) as of December 31, 2010, under the new directives	11,879

* Including principal and interest.

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

Reported amounts

In NIS millions

Audited

Table 3 – Effect on Provision for Credit Losses in Respect of Debts and in Respect of Off-Balance-Sheet Credit Instruments as of December 31, 2010

	Provision for credit losses		
		Group**	
	Individual	Other	Total
Balance of provision for credit losses as of December 31, 2010 included in the financial statements	48	31	79
Effect of initial implementation of the new directives:			
Net accounting write-offs recognized as of December 31, 2010***	*-	(65)	(65)
Other changes in the provision for credit losses as of December 31, 2010 (allocated to shareholders' equity)	(41)	90	49
Balance of provision for credit losses as of December 31, 2010, according to the new directives	7	56	63

* Amount lower than NIS 0.5 million.

** Including provisions on a group basis in respect of debts examined individually and found to be unimpaired.

*** Including principal and interest.

Table 4 – Effect on Balance of Other Assets in Respect of Net Deferred Taxes Receivable as of December 31, 2010

	December 31, 2010
Balance of other assets in respect of net deferred taxes receivable as of December 31, 2010 included in the financial statements (1)	24
Effect of initial implementation as of December 31, 2010 of the new directives	10
Balance of other assets in respect of net deferred taxes receivable as of December 31, 2010 according to the new directives	34

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

Reported amounts

In NIS millions

Audited

B. Additional Details Regarding the Data According to the New Directives

Table 5 – Balance of Credit to the Public as of December 31, 2010 According to the New Directives

	December 31, 2010		
	Recorded debt balance	Provision for credit losses	Net debt balance
Credit to the public examined on an individual basis*	64	7	57
Credit to the public examined on a group basis**	11,815	48	11,767
Total credit to the public	11,879	55	11,824

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

** Other credit not individually examined for which the provision for credit losses was calculated on a group basis. See further details in Table 7.

Table 6 – Credit to the Public Examined on an Individual Basis

1. Individually examined credit to the public includes:

	December 31, 2010		
	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired credit to the public*	7	7	-
Unimpaired credit to the public, 90 days or more in arrears**	-	-	-
Unimpaired credit to the public, 30 to 89 days in arrears**	***-	***-	-
Other unimpaired credit to the public**	57	***-	57
Total unimpaired credit to the public**	57	***-	57
Total individually examined credit to the public	**64**	**7**	**57**

* All credit to the public examined individually and in arrears of 90 days or more is classified as impaired.

** Also includes credit examined individually and found to be unimpaired, for which the provision for credit losses was calculated on a group basis.

*** Amount lower than NIS 0.5 million.

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

Reported amounts

In NIS millions

Audited

Table 6 – Credit to the Public Examined on an Individual Basis (cont.)

Additional information regarding impaired credit to the public examined individually:

	December 31, 2010
	Recorded debt balance
2. Impaired credit to the public for which an individual credit loss provision exists	7
Impaired credit to the public for which an individual credit loss provision does not exist	-
Total impaired credit to the public	**7**
3. Impaired credit to the public measured at the current value of cash flows	7
Impaired credit to the public measured by the value of collateral	-
Total impaired credit to the public	**7**

4. Problematic credit in restructuring where the terms of the credit have been changed

	December 31, 2010		
	Recorded debt balance	Provision for credit losses	Net debt balance
Credit not accruing interest income	7	7	-
Accruing interest income, in arrears of 90 days or more	-	-	-
Accruing interest income, in arrears of 30 to 89 days	-	-	-
Accruing interest income	-	-	-
Total (included in impaired credit to the public)	**7**	**7**	**-**

Note 2 - Effect of the Initial Adoption of the Directive on the Measurement and Disclosure of Impaired Debts, Credit Risk, and Credit Loss Provisions on Certain Balance Sheet Items as of December 31, 2010 (cont.)

Reported amounts

In NIS millions

Audited

Table 7 – Credit to the Public Examined on a Group Basis

Credit to the public examined on a group basis includes:

Other credit not individually examined, for which the credit loss provision was calculated on a group basis:

	December 31, 2010		
	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired credit to the public*	-	-	-
Unimpaired credit to the public, 90 days or more in arrears	12	6	6
Unimpaired credit to the public, 30 to 89 days in arrears	23	12	11
Other unimpaired credit to the public	11,780	30	11,750
Total	**11,815**	**48**	**11,767**

* Credit to the public examined on a group basis and found to be more than 150 days in arrears is written off in accounting and therefore has no recorded debt balance.

Table 8 – Composition of the Balance of the Provision as of December 31, 2010

	Provision for credit losses		
	Individual	On a group basis*	
		Other	Total
Composition of balance of provision as of December 31, 2010:			
In respect of credit to the public	7	48	55
In respect of debts other than credit to the public	-	**-	**-
In respect of off-balance-sheet items (included in the "other liabilities" item)	-	8	8

* Includes the provision on a group basis in respect of debts examined individually and found to be unimpaired.

** Amount lower than NIS 0.5 million.

Note 3 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2010	**2009**	**2010**	**2009**
Cash on hand	50	63	50	52
Deposits with banks for an original term of up to 3 months	27	412	*-	403
Total cash and cash equivalents	**77**	**475**	**50**	**455**
Other deposits with banks	15	18	15	18
Total	**92**	**493**	**65**	**473**

* Amount lower than NIS 0.5 million.

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

	2010 Average annual interest rate		Consolidated		The Company	
			December 31		December 31	
	For daily balance	For transactions in the last month	2010	2009	2010	2009
	%	%	In NIS millions			
Debtors in respect of credit cards (1) (3)	-	-	10,197	9,362	10,161	9,341
Credit to cardholders (2) (3)	9.79	9.8	731	630	-	-
Credit to merchants (4)	5.31	5.64	380	451	258	337
Total			**11,308**	**10,443**	**10,419**	**9,678**
Less: Provision for doubtful debts			(79)	(60)	(21)	(23)
Total debtors and credit to credit-card holders and merchants			**11,229**	**10,383**	**10,398**	**9,655**
Companies and international credit-card organization			618	116	198	116
Income receivable			18	16	8	8
Others			-	-	-	-
Total debtors in respect of credit-card activity			**11,865**	**10,515**	**10,604**	**9,779**
(1) Of which, under the responsibility of banks			8,760	8,510	8,760	8,510
(2) Of which, under the responsibility of banks			66	55	-	-

(3) Debtors in respect of credit cards – non-interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit to cardholders – interest bearing, including credit in installments, revolving credit transactions, direct credit, and other transactions.

(4) Includes advance payments to merchants in the amount of NIS 255 million (Dec. 31, 2009: NIS 332 million).

Note 5 – Provision for Doubtful Debts[(1)]

Reported amounts

In NIS millions

A. Consolidated

	Specific provision**	Provision on group basis	Total
Balance of provision as of December 31, 2007	25	2	27
Net provisions for 2008	6	5	11
Balance of provision as of December 31, 2008	31	7	38
Net provisions for 2009	14	8	22
Balance of provision as of December 31, 2009	45	15	60
Net provisions for 2010	3	16	19
Balance of provision as of December 31, 2010	48	31	79

B. The Company

	Specific provision**	Provision on group basis	Total
Balance of provision as of December 31, 2007	18	1	19
Net provisions for 2008	*-	*-	*-
Balance of provision as of December 31, 2008	18	1	19
Net provisions for 2009	4	*-	4
Balance of provision as of December 31, 2009	22	1	23
Net provisions for 2010	(3)	1	(2)
Balance of provision as of December 31, 2010	19	2	21

See also Note 2 – the pro-forma note referring to the effect that the new directives would have had on the principal balance-sheet items in the consolidated financial statements as of December 31, 2010, if the directives were implemented on that date.

* Amount lower than NIS 0.5 million.

** Does not include a provision for interest on doubtful debts after the debts were classified as doubtful.

(1) Bad debts in the amount of NIS 29 million (2009: NIS 6 million, 2008: NIS 3 million) were included in the statement of profit and loss.

In 2010, a provision for doubtful debts in the amount of NIS 13 million was added, in respect of a company consolidated for the first time. Expenses for doubtful debts in the amount of NIS 3 million in respect of check discounting were recorded against other assets.

Note 6 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

Reported amounts

In NIS millions

	December 31, 2010			
	Debtors in respect of credit-card activity			
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Credit risk[3]
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,045,399	1,630	1,555	183
Borrower balances over 5 and up to 10	368,677	2,328	2,172	338
Borrower balances over 10 and up to 15	165,460	1,644	1,482	370
Borrower balances over 15 and up to 20	103,749	1,115	909	700
Borrower balances over 20 and up to 30	95,882	1,245	975	1,111
Borrower balances over 30 and up to 40	80,556	807	537	2,069
Borrower balances over 40 and up to 80	94,418	1,435	846	3,150
Borrower balances over 80 and up to 150	11,760	354	186	725
Borrower balances over 150 and up to 300	862	119	71	51
Borrower balances over 300 and up to 600	254	74	31	33
Borrower balances over 600 and up to 1,200	115	55	22	42
Borrower balances over 1,200 and up to 2,000	-	-	-	-
Borrower balances over 2,000 and up to 4,000	84	130	35	43
Borrower balances over 4,000 and up to 8,000	12	49	5	15
Borrower balances over 8,000 and up to 20,000	12	109	-	25
Borrower balances over 20,000 and up to 40,000	2	63	-	-
Borrower balances over 40,000 and up to 200,000	6	351	-	47
Borrower balances over 200,000 and up to 400,000	1	339	-	-
Total	**1,967,249**	**11,847**	**8,826**	**8,902**
Income receivable and other debtors	-	18	-	-
Total	**1,967,249**	**11,865**	**8,826**	**8,902**

(1) After deducting specific provisions for doubtful debts.

(2) Number of borrowers by total debtors and credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of the borrower (excluding credit facilities under the responsibility of banks).

Note 6 – Debtors[(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

Reported amounts

In NIS millions

	December 31, 2009			
	Debtors in respect of credit-card activity			
	Number of borrowers[(2)]	Total	Of which:* under responsibility of banks	Credit risk[(3)]*
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	998,335	1,995	1,719	1,136
Borrower balances over 5 and up to 10	357,777	2,685	2,353	1,529
Borrower balances over 10 and up to 15	139,697	1,788	1,551	1,019
Borrower balances over 15 and up to 20	59,500	1,078	917	614
Borrower balances over 20 and up to 30	43,503	1,101	902	627
Borrower balances over 30 and up to 40	14,093	507	398	289
Borrower balances over 40 and up to 80	10,772	587	456	334
Borrower balances over 80 and up to 150	1,395	149	124	85
Borrower balances over 150 and up to 300	293	61	51	35
Borrower balances over 300 and up to 600	101	45	35	26
Borrower balances over 600 and up to 1,200	48	44	30	25
Borrower balances over 1,200 and up to 2,000	29	64	29	36
Borrower balances over 2,000 and up to 4,000	-	-	-	-
Borrower balances over 4,000 and up to 8,000	4	27	-	16
Borrower balances over 8,000 and up to 20,000*	3	43	-	25
Borrower balances over 20,000 and up to 40,000	1	37	-	21
Borrower balances over 40,000 and up to 200,000	4	288	-	224
Total	**1,625,555**	**10,499**	**8,565**	**6,041**
Income receivable and other debtors	-	16	-	-
Total	**1,625,555**	**10,515**	**8,565**	**6,041**

(1) After deducting specific provisions for doubtful debts.

(2) Number of borrowers by total debtors and credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of the borrower (excluding credit facilities under the responsibility of banks).

* Reclassified.

Note 7 – Securities

Reported amounts

In NIS millions

	December 31, 2010			
	Balance-sheet value	**Depreciated cost (in shares – cost)**	**Unrecognized profits (losses) from adjustments to fair value********	**Fair value*** **
Securities available for sale:				
Shares of others**	74	65	9	74
Israeli government bonds	-	-	(*-)	-
Total securities available for sale	**74**	**65**	**9**	**74**

	December 31, 2009			
	Balance-sheet value	**Depreciated cost (in shares – cost)**	**Unrecognized profits (losses) from adjustments to fair value********	**Fair value*** **
Securities available for sale:				
Shares of others**	67	67	*-	67
Israeli government bonds	111	111	*-	111
Total securities available for sale	**178**	**178**	***-**	**178**

* Amount lower than NIS 0.5 million.

** Includes shares for which no fair value is available, which are presented at cost, in the amount of NIS 14 million as of December 31, 2010 (Dec. 31, 2009: NIS 67 million).

*** Fair-value data are usually based on stock-market prices.

**** Included in shareholders' equity under the item "adjustments for presentation of securities available for sale at fair value," in an amount lower than NIS 0.5 million.

Note 7 – Securities (cont.)

Acquisition of Shares of MasterCard Incorporated ("MC")

On December 13, 2007, the Company purchased 150,380 Class B Common Stock shares of MC from Europay, in consideration for a total of approximately NIS 101 million. The amount of the purchase reflects the fair value of the investment at that date.

In June 2008, the Company sold some of these shares on the stock market. Following this sale, 73,994 Class B shares of MC remain under the ownership of the Company.

Up to and including December 31, 2009, this investment was presented in the financial statements at the historical cost. Starting with the financial statements for the first quarter of 2010, the investment has been presented in the financial statements at fair value (the block on trading in the shares was lifted towards the end of the first half of 2010).

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies

Reported amounts

In NIS millions

A. Consolidated

	December 31, 2010			December 31, 2009		
	Affiliates	Consolidated companies	Total	Affiliates	Consolidated companies	Total
Investments in shares by equity method (including goodwill)	1	-	1	-	-	-
Other investments						
Owners' loans	2	-	2	2	-	2
Total investments	3	-	3	2	-	2
Of which: profits (losses) accrued since acquisition date	-	-	-	-	-	-
Items accrued in shareholders' equity since acquisition date						
Details of goodwill:						
Depreciation rate	-	10%	10%	-	10%	10%
Original amount	-	10	10	-	10	10
Balance for depreciation	-	7	7	-	10	10

B. The Company

	Affiliates	Consolidated companies	Total	Affiliates	Consolidated companies	Total
Investments in shares by equity method (including goodwill)	1	364	365	*-	**276	276
Other investments						
Owners' loans	-	-	-	-	9	9
Total investments	**1**	**364**	**365**	*-	**285**	**285**
Of which: profits (losses) accrued since acquisition date	-	75	75	*-	**64	**64
Items accrued in shareholders' equity since acquisition date						
Details of goodwill:						
Depreciation rate	-	10%	10%	-	10%	10%
Original amount	-	10	10	-	10	10
Balance for depreciation	-	7	7	-	10	10

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

The Company's Share in Profits or Losses of Investee Companies

	Consolidated			The Company		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
The Company's share in operating profits of investee companies	*-	*-	*-	20	14	9
Provision for taxes:						
Current taxes	*-	*-	*-	14	12	7
Deferred taxes	*-	*-	*-	(5)	(7)	(4)
Total provision for taxes	*-	*-	*-	9	5	3
The Company's share in operating profits of investee companies after tax effect	*-	*-	*-	11	9	6

* Amount lower than NIS 0.5 million.

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies (cont.)

Reported amounts

A. Consolidated Subsidiaries

Company name and activity[1]	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares	
					By equity method[2]	
	2010	2009	2010	2009	2010	2009
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Credit granting	100%	100%	100%	100%	11	**3
Isracard Nechasim Ltd.						
Activity: Asset company	100%	100%	100%	100%	90	83
Global Factoring Ltd.						
Activity: Factoring	51%	51%	51%	51%	10	**10
Europay (Eurocard) Israel Ltd.						
Activity: Banking auxiliary corporation	98.2%	98.2%	98.2%	98.2%	180	180
Tzameret Mimunim Ltd.						
Activity: Credit-card discounting	100%	-	100%	-	73	-

B. Affiliates

Kidum Mivne Iguach Ltd.						
Activity: Granting vehicle loans	-	20%	-	20%	-	-
I.M.T. - The Central Vehicle Distribution Company Ltd.						
Activity: Granting vehicle loans	-	20%	-	20%	1	*-

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Details in accordance with Section 32G of the Public Reporting Directives, Annual Financial Statements.

(2) Including balances of surplus attributed costs and goodwill, net of cumulative losses from impairment.

(3) Balance of goodwill, net of cumulative losses from impairment of goodwill; included in the column, "investment in shares by equity method."

Investments in shares		Goodwill balances(3)		Other capital investments		Contribution to net operating profit	
By market value							
2010	2009	2010	2009	2010	2009	2010	2009
In NIS millions							
-	-	-	-	-	-	8	2
-	-	-	-	-	2	7	**7
-	-	7	10	-	**6	(7)	(1)
-	-	-	-	-	-	-	*-
-	-	-	-	-	-	3	-
-	-	-	-	2	2	-	-
-	-	-	-	-	-	-	-

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

D. Information Regarding a Subsidiary Consolidated for the First Time

Company: Tzameret Mimunim Ltd.	At acquisition date
Total assets*	613
Net profit of the company in 2010**	9

* According to the books of the company.

** After cancelling inter-company profits in the holding group.

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

E. Balance of Goodwill in Respect of Consolidated Companies

	Positive goodwill	(Negative) goodwill	Net (negative) goodwill
Cost	10	(-)	-
Accrued depreciation	3	(-)	-
Depreciated balance	7	(-)	-

1. **Europay (Eurocard) Israel Ltd.** – Europay was established and incorporated in Israel in 1972, as a private company, by Bank Hapoalim, which was the controlling shareholder of the company until July 2009. In July 2009, the Company acquired the entire holdings of Bank Hapoalim and of a subsidiary under its ownership in Europay, comprising 98.2% of the issued and paid-up common share capital and 100% of the issued and paid-up special share capital of Europay. The remaining issued and paid-up common share capital of Europay (1.8%) is held by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). The consideration paid by the Company for the acquisition was determined in accordance with an assessment performed for Europay, in the amount of approximately NIS 182 million.

2. **Tzameret Mimunim Ltd. ("Tzameret Mimunim")** – In July 2009, the Company sold its entire stake in Tzameret Mimunim, which constituted 19% of the issued and paid-up share capital of Tzameret Mimunim, to Hapoalim Nechasim (Menayot) Ltd. ("Hapoalim Nechasim"; a subsidiary of Bank Hapoalim, which prior to the sale held the remaining shares of Tzameret Mimunim). Tzameret Mimunim is engaged in discounting transactions in credit-card sales slips. The consideration received by the Company for the sale is in the amount of approximately NIS 15 million, against the repayment of capital notes which the Company provided to Tzameret Mimunim. On January 31, 2010, the Board of Directors of the Company passed a resolution to acquire Tzameret Mimunim from Hapoalim Nechasim (Menayot) Ltd. ("Hapoalim Nechasim"), a subsidiary of Bank Hapoalim. In March 2010, the Company acquired its entire holdings (100%) in the shares of Tzameret Mimunim. Tzameret Mimunim is engaged in credit-card sales slip discounting. The acquisition, in the amount of NIS 71.4 million, was performed in order to centralize the area of credit-card sales slip discounting at the Company. The consideration paid by the Company for the acquisition was determined based on an assessment performed for Tzameret Mimunim.

3. **Global Factoring Ltd. ("Global")** – In August 2009, an agreement was signed between the Company and Global, a private factoring company, and its shareholders, pursuant to which 51% of **the** issued capital of Global (after the allocation) was allocated to Isracard, further to previous legal agreements between the parties. Upon signing the agreement, Global became a banking auxiliary corporation; beyond the rules applicable to auxiliary corporations in general, it is also subject to the instructions in the Bank of Israel's approval of the transaction. Goodwill in the amount of NIS 10 million was generated at the acquisition date.

Note 8 – Investments in Investee Companies (in the Consolidated Report: Affiliates) and Information Regarding these Companies (cont.)

4. In October 2009, an agreement was signed between the Company, Kidum D.S. (Investments and Finance 1992) Ltd. ("**Kidum Investments**"), and Kidum, pursuant to which shares of Kidum were allocated to the Company, such that following the allocation the Company holds 20% of the paid-up share capital of Kidum, while Kidum Investments holds 80% of this capital. Kidum extends loans to the general public for the purchase of used motor vehicles.

5. **I.M.T. - The Central Vehicle Distribution Company Ltd. ("IMT")** – IMT leases vehicles to its customers, based on the financing and operating lease method, while providing financing sources. The Company holds 20% of the issued share capital of IMT. The investment in IMT is presented in the financial statements based on the equity method, and is a strategic investment, as part of the expansion of the Company's activity in the area of financing.

Note 9 – Buildings and Equipment

Reported amounts

In NIS millions

Consolidated

A. Composition:

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:								
As of December 31, 2009	69	71	252	122	1	39	3	557
Subsidiary consolidated for the first time	-	-	2	5	-	1	-	8
Additions	-	4	32	42	-	4	1	83
Subtractions	-	-	-	-	*-	-	-	*-
As of December 31, 2010	**69**	**75**	**286**	**169**	**1**	**44**	**4**	**648**
Accrued depreciation:								
As of December 31, 2009	11	28	186	54	*-	24	-	303
Subsidiary consolidated for the first time	-	-	2	4	-	-	-	6
Additions	1	3	32	32	*-	2	1	71
Subtractions	-	-	-	-	-	-	-	-
As of December 31, 2010	**12**	**31**	**220**	**90**	*-	**26**	**1**	**380**
Depreciated balance as of December 31, 2010	**57**	**44**	**66**	**79**	**1**	**18**	**3**	**268**
Depreciated balance as of December 31, 2009	**58**	**43**	**66**	**68**	**1**	**15**	**3**	**254**
Average weighted depreciation rate in 2010 (%)	2.0	7.5	24.9	25.0	15.0	8.6	25.0	
Average weighted deprecation rate in 2009 (%)	2.0	7.1	24.0	25.0	15.0	8.5	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

B. The balance-sheet balance of buildings not in use by the Company and its consolidated companies amounted to NIS 17 million on December 31, 2010, similar to the balance on December 31, 2009.

Note 9 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition:

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As of December 31, 2009	14	251	122	1	38	3	429
Additions	4	32	42	-	4	1	83
Subtractions	-	-	-	*-	-	-	*-
As of December 31, 2010	**18**	**283**	**164**	**1**	**42**	**4**	**512**
Accrued depreciation:							
As of December 31, 2009	2	185	54	*-	23	-	264
Additions	2	32	31	*-	2	1	68
Subtractions	-	-	-	-	-	-	-
As of December 31, 2010	**4**	**217**	**85**	***-**	**25**	**1**	**332**
Depreciated balance as of December 31, 2010	**14**	**66**	**79**	**1**	**17**	**3**	**180**
Depreciated balance as of December 31, 2009	**12**	**66**	**68**	**1**	**15**	**3**	**165**
Average weighted depreciation rate in 2010 (%)	9.9	24.9	25.0	15.0	8.7	25.0	
Average weighted deprecation rate in 2009 (%)	9.9	24.0	25.0	15.0	8.6	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

Note 10 – Other Assets

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2010	2009	2010	2009
Deferred taxes receivable (see Note 27)	32	*31	14	*18
Surplus of advance income-tax payments over current provisions	20	21	21	22
Balance of expenses for depreciation: intangible property (goodwill)	7	10	-	-
Other debtors and debit balances:				
Loans to employees	3	3	3	3
Prepaid expenses	19	17	18	17
Related companies	41	62	1,507	810
Debtors in respect of factoring	58	29	-	-
Others	11	6	10	3
Total other debtors and debit balances	132	117	1,538	833
Total other assets	**191**	**179**	**1,573**	**873**

* Restated; see Note 1DD.

Note 11 – Credit from Banking Corporations

	December 31, 2010					
	Average annual interest rate					
	For daily balance	For transactions in the last month	Consolidated December 31		The Company December 31	
			2010	2009	2010	2009
	%	%	NIS millions		NIS millions	
Credit in current drawing accounts	3.5	3.5	76	47	15	25

Note 12 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2010	**2009**	**2010**	**2009**
Merchants [(1)]	10,416	9,926	10,697	9,926
Liabilities in respect of deposits	3	2	3	2
Credit-card company	185	131	185	131
Prepaid income	9	2	3	2
Loyalty program	83	*118	83	*118
Expenses payable	50	45	50	45
Others	73	*50	73	*50
Total creditors in respect of credit-card activity	**10,819**	**10,274**	**11,094**	**10,274**

* Restated; see Note 1DD.

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 419 million as of December 31, 2010 (Dec. 31, 2009: NIS 249 million). In the consolidated report – offset by an existing balance with an investee company in the amount of NIS 427 million.

Note 13 – Other Liabilities

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2010	2009	2010	2009
Provision for deferred taxes (see Note 27)	5	4	1	-
Surplus of provision for employee rights over amount funded (see Note 15)	28	27	28	27
Other creditors and credit balances:				
Expenses payable in respect of wages and related expenses	45	37	43	37
Suppliers of services and equipment	40	46	40	46
Expenses payable	60	54	60	54
Institutions	12	13	14	13
Europay (Eurocard) Israel Ltd.*	-	-	181	181
Related companies	85	-	90	-
Others	40	39	18	21
Total other creditors and credit balances	282	189	446	352
Total other liabilities	**315**	**220**	**475**	**379**

* With regard to the acquisition of shares of Europay, see Note 8.

Note 14A – Shareholders' Equity

A. Composition

	December 31, 2010 and 2009	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 0.0001	100	73
Special share of NIS 0.0001 (1)	-	-
	100	**73**

(1) One share registered, issued, and paid-up.

Isracard

Note 14A – Shareholders' Equity (cont.)

B. Share rights

The special share grants its holder the following rights, in addition to the right to receive invitations to, participate in, and vote in the Company's general meetings:

(A) In every general meeting of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

Note 14B – Capital Adequacy According to the Directives of the Supervisor of Banks (1)

Reported amounts

Consolidated Data

1. **Capital for the calculation of the capital ratio**

	December 31, 2010	December 31, 2009
	NIS millions	
Core capital	1,275	1,080
Tier 1 capital, after deductions	1,268	*1,070
Tier 2 capital, after deductions	4	**-
Total overall capital	**1,272**	**1,070**

* Restated; see Note 1DD.

** Amount lower than NIS 0.5 million.

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	7,749	697	*7,254	653
Market risks – foreign currency exchange rate risk	75	7	30	3
Operational risk	1,324	119	*1,209	109
Total weighted balances of risk-adjusted assets	**9,148**	**823**	**8,493**	**765**

* Restated; see Note 1DD.

Note 14B – Capital Adequacy According to the Directives of the Supervisor of Banks (1) (cont.)

Reported amounts

In NIS millions

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	13.9	*12.7
Ratio of tier I capital to risk-adjusted assets	13.9	*12.6
Ratio of total capital to risk-adjusted assets	13.9	*12.6
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

* Restated; see Note 1DD.

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

B. Capital Components for the Calculation of the Capital Ratio (in consolidated data)

	December 31, 2010	December 31, 2009
1. Tier I capital		
Shareholders' equity	1,277	**1,075
Minority interests' rights to capital of consolidated subsidiaries	6	5
Less: Goodwill	7	10
Less: Net losses in respect of adjustments to fair value of securities available for sale	8	*-
Total tier 1 capital	**1,268**	**1,070**

2. Tier II capital		
Upper tier II capital		
45% of net profit, before the effect of the related tax, in respect of adjustments to fair value of securities available for sale	4	*-

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

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Note 15 – Employee Rights

A. Retirement Compensation and Pensions

1. General

The pension rights of employees reaching retirement age are mainly covered by the amounts accrued in allowance-based provident funds, compensation funds, and senior employees' insurance policies, while the remainder of such rights is covered by a liability included in the financial statements. Retirement of an employee exempts the Company from the payment of severance compensation.

2. Personal Contracts – Chairman of the Board of Directors, Deputy Chairman of the Board, and CEO of the Company

(A) Ms. Irit Izakson was elected to serve as Chairperson of the Board of Directors of the Company on September 25, 2008, and she has served as Acting Chairperson of the Board of Directors of the Company and of Europay as of October 1, 2008. The agreement is for a period of three years and three months, beginning on October 1, 2008 and ending on December 31, 2011. Notwithstanding the aforesaid, the parties are entitled to terminate the contractual engagement pursuant to the agreement at any time, including prior to the end of the term of the agreement, with six months' advance notice in writing. During the advance-notice period, the Chairperson of the Company shall be entitled to a salary and related terms as specified in the agreement with her. If her employment is terminated, either at her own initiative or at the initiative of the Company, the Chairperson shall be entitled to receive a full supplement of compensation to 100% of the compensation amount, in the event that the amount of the compensation in the policy is lower.

(B) The outgoing Deputy Chairman of the Board of Directors served as CEO of the Company until January 31, 2009. Under his agreement with the Company, upon the end of his term of service as CEO of the Company, he served as Deputy Chairman of the Company under the same terms of employment. In addition, a non-competition and consulting agreement was signed with him, pursuant to which his employment as Deputy Chairman of the Board of Directors of the Company ended on October 31, 2009. The agreement defines a three-year period of non-competition and provision of consulting services, starting on November 1, 2009. The agreement cannot be cancelled. Pursuant to the agreement, the outgoing Deputy Chairman will receive payment in the amount of NIS 1.5 million in respect of non-competition within one year, as well as NIS 75 thousand per month for 36 months. In addition, the outgoing Deputy Chairman will be paid NIS 36 thousand per month for 36 months for consulting services.

Note 15 – Employee Rights (cont.)

A. Retirement Compensation and Pensions (cont.)

(C) The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009 and is employed under a personal contract, pursuant to which at the end of the term of the agreement, or in the event that his employment is terminated, either at his own initiative or at the initiative of the Company, he shall be entitled to receive the full provisions for retirement pay, pensions, and compensation, as well as a supplement of the amount of compensation to 100% if the amount of the compensation is lower.

He will also be entitled to the payment of his full terms of employment during the advance-notice period prior to the cessation of his term of service, which is three months in the event of termination at his own initiative, or six months in the event of termination other than at his initiative.

The terms of employment of the CEO were approved by the Audit Committee and the Board of Directors of the Company.

The financial statements include adequate provisions to cover the liabilities detailed in Sections 2(A)-(C) above.

B. Bonuses

1. Pursuant to her employment agreement, the Chairperson of the Board of Directors shall be entitled to an annual bonus at varying rates, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group where she serves as Chairperson of the Board of Directors, relative to a baseline profit of NIS 160 million. The total bonus each year shall be the amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for the receipt of a bonus in a particular year.

2. Under his employment agreement, the CEO of the Company is entitled to an annual bonus at varying rates, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group in which he serves as CEO, relative to the baseline profit, which is the average annual profit in 2007-2008 (excluding nonrecurring events that are not part of the ordinary course of the Company's business).

   The total bonus each year will be in an amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for the receipt of a bonus in a particular year.

Note 15 – Employee Rights (cont.)

B. Bonuses (cont.)

3. Under an agreement signed between Bank Hapoalim (hereinafter: "**the Bank**") and the Employees' Union of the Bank, some employees are entitled to an annual bonus. The annual bonus is determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus.

4. Pursuant to his employment agreement, the Bank allocated 800,000 phantom units (a monetary grant based on the change in the price of the Bank's share on the Tel Aviv Stock Exchange) to the outgoing Deputy Chairman of the Board of Directors, at no cost, for the years 2007-2009. Should the Company's shares be floated to the public, he will be granted phantom units and/or option notes for shares of Isracard, and/or shares of Isracard at a value or at terms as granted to the CEO of the Company serving at that time. In such a case, the Deputy Chairman of the Board of Directors will be entitled to exercise a relative part of the 800,000 phantom units allocated to him by the Bank reflecting the ratio of the period from January 1, 2007 until the date of the floating of the Company's shares to the public, to the entire period of the agreement. As of the end of 2010, the aforesaid phantom units are not on the Company's books.

5. Some employees on loan from the Bank are entitled to a long-service grant at the end of 25 years of employment at the Company.

6. Some employees on loan from the Bank are entitled to compensation for unutilized sick days upon retirement.

The financial statements include appropriate provisions in respect of Sections (5) and (6) above, based on actuarial calculations, which include a real wage increment at a rate of 1% per year, and are capitalized at an annual discount rate of 4%, with a total balance of approximately NIS 5 million, similar to the provision at the end of 2009.

The financial statements include full provisions for all of the aforesaid bonuses.

C. Liabilities in respect of the termination of employer-employee relationships

The balance of the provision in respect of liabilities for the termination of employer-employee relationships stands at NIS 53 million (2009: NIS 48 million).

Note 15 – Employee Rights (cont.)

D. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 2 million, similar to the provision at the end of 2009.

E. Retirement Program

The balance of the provision for retirement programs implemented in recent years for employees of the Bank on loan to the Company amounts to NIS 15 million. The provision is based on actuarial calculations, including a real wage increment at a rate of 1% per year, and capitalized at an annual discount rate of 4% (2009: NIS 13 million).

The balance of non-pension post-retirement benefits amounts to NIS 2 million (2009: NIS 4 million).

The amounts of reserves and amounts funded for employee rights, as stated in the balance sheet, are as follows:

	December 31	
	2010	**2009**
Amount of provision	74	70
Amounts funded	46	43
Surplus of provision over amounts funded*	28	27

* Included under the item "other liabilities."

F. Options to Employees

1. Pursuant to the employment agreement of the Chairperson of the Board of Directors of the Company, she will be allocated 6,293 nontradable option notes exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

F. Options to Employees (cont.)

The vesting period of the options is as follows: One-third of the options vest on January 1 of each of the years 2010, 2011, and 2012. The Chairperson will be able to exercise the options into shares (after vesting) until January 1, 2013. As a rule, the Chairperson will not be permitted to sell shares until one of the following events occurs: the end of her employment, the listing of the shares of the Company for trading on the stock market, or a change in the control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

The Company has first proposal right and first refusal right with regard to any transfer of shares by the Chairperson of the Company. The Chairperson has the right to join sales of shares of the Company by Bank Hapoalim, under certain conditions.

The agreement also includes directives related to the options in the event of the end of the term of service of the Chairperson. In addition, in the event of the termination of the term of service of the Chairperson prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares arising from the exercise of the options.

The options shall be allocated according to the capital-gains track specified in Section 102 of the Income Tax Ordinance (New Version), 5721-1961. Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010.

2. Pursuant to his employment agreement, 7,404 nontradable option notes exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each were allocated to the CEO of the Company. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 7,545 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting periods of the options are as follows: One-third of the options vest on March 1 of each of the years 2010, 2011, and 2012. The CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

   As a rule, the CEO of the Company is not permitted to sell shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock market, or a change in control of the Company. The options will be exercised based on a net exercise mechanism; at the time of exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that time.

Note 15 – Employee Rights (cont.)

F. Options to Employees (cont.)

The Company has first proposal right and first refusal right with regard to any transfer of shares by the current CEO of the Company. The CEO has the right to join sales of shares by Bank Hapoalim, under certain conditions.

The agreement also includes directives related to the options in the event of the end of the term of service of the CEO. In addition, in the event of the end of the term of service of the CEO prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares.

The options were allocated according to the capital-gains track specified in Section 102 of the Income Tax Ordinance (New Version), 5721-1961.

3. Options to employees

(A) In May 2004, the Board of Directors of the Bank approved an option allocation program for the Bank's employees for 2004-2009. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, will be allocated nontradable option notes, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Each portion of options will have a vesting period of four years from the beginning of the year in which the options were allocated, and will be exercisable for a period of one year after the end of the vesting period. The quantity of options distributed to each employee was determined according to the employee's seniority, job description, and rank. Up to and including 2010, 224,187 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

(B) On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, will receive options to purchase shares of the Bank at a price of NIS 1 each, or phantom units which grant rights similar to options to purchase shares of the Bank at the aforesaid price. The said option notes will be allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program will be similar to those of the option plan for employees in 2004-2009. The option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

The agreement states that options will be granted to employees provided that approval is obtained from the Supervisor of Banks for the purchase of the Bank's own shares by the Bank, in order to create a reserve to be used for the exercise of the aforesaid options.

Note 15 – Employee Rights (cont.)

G. Wage Agreement

1. On September 30, 2009, the Board of Directors of the Bank approved agreements between the Board of Management of the Bank and the employees' union of the Bank on various matters, including terms of wages and employment; the cancellation of indexation to the CPI of various benefits paid to the employees of the Bank, including during the post-retirement period; cancellation of the 40-year service grant; setting the 25-year service grant at one monthly salary, instead of two; and the waiver of five vacation days by the employees. In addition, the parties reached agreements regarding the securities-based compensation plan for the employees of the Bank.

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.

Note 16 – Assets and Liabilities by Linkage Base – Consolidated

Reported amounts

In NIS millions

	December 31, 2010					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	46	6	36	4	-	92
Debtors in respect of credit-card activity	11,762	69	37	(3)	-	11,865
Securities	-	-	-	-	74	74
Investments in affiliated companies	-	-	-	-	3	3
Buildings and equipment	-	-	-	-	268	268
Other assets	162	3	-	*-	26	191
Total assets	**11,970**	**78**	**73**	**1**	**371**	**12,493**
Liabilities						
Credit from banking corporations	75	-	-	1	-	76
Creditors in respect of credit-card activity	10,613	61	60	*-	85	10,819
Other liabilities	304	-	*-	6	5	315
Total liabilities	**10,992**	**61**	**60**	**7**	**90**	**11,210**
Difference	978	17	13	(6)	281	1,283
Effect of non-hedging derivative instruments						
Derivative instruments (excluding options)	(10)	-	10	-	-	-
Total	**968**	**17**	**23**	**(6)**	**281**	**1,283**

(1) Including foreign-currency linked.

Note 16 – Assets and Liabilities by Linkage Base – Consolidated (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Israeli currency		Foreign currency[(1)]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	441	6	35	11	-	493
Debtors in respect of credit-card activity	10,403	59	53	*-	-	10,515
Securities	11	100	-	-	67	178
Investments in affiliated companies	-	-	-	-	2	2
Buildings and equipment	-	-	-	-	254	254
Other assets	**149	3	-	-	27	**179
Total assets	**11,004**	**168**	**88**	**11**	**350**	**11,621**
Liabilities						
Credit from banking corporations	47	-	-	-	-	47
Creditors in respect of credit-card activity	**10,062	51	69	-	92	**10,274
Other liabilities	216	-	-	-	4	220
Total liabilities	**10,325**	**51**	**69**	**-**	**96**	**10,541**
Difference	679	117	19	11	254	1,080

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	6,430	2,395	2,421	555	109	9
Liabilities	6,184	2,379	1,986	343	70	2
Difference	246	16	435	212	39	7
Effect of derivative instruments	(3)	-	50	(54)	(3)	-
Total	**243**	**16**	**485**	**158**	**36**	**7**
CPI-linked Israeli currency						
Assets	14	21	32	3	6	*-
Liabilities	11	18	28	3	1	*-
Difference	3	3	4	*-	5	(*-)
Foreign currency(3)						
Assets	59	11	4	*-	-	-
Liabilities	47	13	2	*-	*-	-
Difference	12	(2)	2	(*-)	(*-)	-
Effect of derivative instruments	3	-	-	4	3	-
Total	**15**	**(2)**	**2**	**4**	**3**	**-**
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

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

(2) As included in Note 16, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return
2	*-	-	-	11,921	49	11,970	0.33
1	5	8	-	10,978	14	10,992	-
1	(5)	(8)	-	943	35	978	0.33
-	-	-	-	(10)	-	(10)	
1	**(5)**	**(8)**	**-**	**933**	**35**	**968**	
2	-	-	-	78	-	78	-
-	-	-	-	61	-	61	-
2	-	-	-	17	-	17	-
-	-	-	-	74	-	74	0.77
-	-	-	-	62	5	67	-
-	-	-	-	12	(5)	7	0.77
-	-	-	-	10	-	10	
-	**-**	**-**	**-**	**22**	**(5)**	**17**	
-	-	-	-	-	371	371	-
-	-	-	-	-	90	90	-
-	-	-	-	-	281	281	-

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	6,503	2,427	2,457	558	115	9
Liabilities	6,242	2,410	2,016	346	71	2
Difference	261	17	441	212	44	7
Effect of derivative instruments	-	-	50	(50)	-	-
Total	**261**	**17**	**491**	**162**	**44**	**7**

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

(2) As included in Note 16, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[3]	Total	Contractual rate of return[5]
4	-	-	-	12,073	420	12,493	0.33
1	5	8	-	11,101	109	11,210	-
3	(5)	(8)	-	972	311	1,283	0.33
-	-	-	-	-	-	-	
3	**(5)**	**(8)**	**-**	**972**	**311**	**1,283**	

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency*						
Assets	6,382	2,106	2,034	364	63	12
Liabilities	5,546	2,288	1,985	355	94	32
Difference	836	(182)	49	9	(31)	(20)
CPI-linked Israeli currency						
Assets	33	13	111	2	1	5
Liabilities	26	12	11	2	-	-
Difference	7	1	100	-	1	5
Foreign currency(3)						
Assets	66	14	17	2	-	-
Liabilities	33	10	11	2	-	-
Difference	33	4	6	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

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

(2) As included in Note 16, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency-linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

* Restated; see Note 1DD.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return
-	-	-	-	10,961	43	11,004	0.24%
2	6	4	2	10,314	11	10,325	0.02%
(2)	(6)	(4)	(2)	647	32	679	
3	-	-	-	168	-	168	0%
-	-	-	-	51	-	51	0%
3	-	-	-	117	-	117	
-	-	-	-	99	-	99	0%
-	-	-	-	56	13	69	0%
-	-	-	-	43	(13)	30	
-	-	-	-	-	350	350	-
-	-	-	-	-	96	96	-
-	-	-	-	-	254	254	

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	6,481	2,133	2,162	368	64	17
Liabilities	5,605	2,310	2,007	359	94	32
Difference	876	(177)	155	9	(30)	(15)

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

(2) As included in Note 16, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance(2)		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(3)	Total	Contractual rate of return(5)
3	-	-	-	11,228	393	11,621	0.23%
2	6	4	2	10,421	120	10,541	0.02%
1	(6)	(4)	(2)	807	273	1,080	

Note 18 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2010	2009	2010	2009
Unutilized credit-card credit lines:				
Credit risk on the Company and its consolidated companies	8,678	*5,998	8,257	5,574
Credit risk on banks	23,854	31,053	23,854	27,642
Credit risk on others	224	43	-	-

The change in credit lines resulted from the definition of one credit line per card, for all types of usage possible in the cards. The transition to a single credit line began in late December 2009, and was completed in January 2010.

	Consolidated		The Company	
	December 31		December 31	
	2010	2009	2010	2009
Other liabilities:				
Exposure in respect of check guarantees	57	18	57	18
Exposure in respect of other guarantees (1)	11	-	11	-
Liability in respect of factoring*	12	15	-	-

* Reclassified.

(1) In June 2010, the Company, jointly with Super Pharm (Israel) Ltd. ("Super Pharm") and Alonyal Ltd. ("Alonyal") provided guarantees, limited in amount, to secure the debts of Life Style Customer Loyalty Club Ltd. ("Life Style Loyalty Club") and of Life Style Financing Ltd. ("Life Style Financing") to Bank Hapoalim. The guarantees are linked to the consumer price index. Each party's guarantee is calculated according to the proportion of its ownership of Life Style Loyalty Club and Life Style Financing at the time of exercise of the guarantee, out of the amount of the guarantee. The amount of the guarantee for each guarantor shall be calculated with the deduction of amounts previously demanded of that guarantor by the Bank up to that date, and actually paid to the Bank by that guarantor. Total guarantees granted are as follows: Life Style Loyalty Club was given a guarantee in a total amount of NIS 5 million; Life Style Financing was given a guarantee in a total amount of NIS 50 million. As of the date of the report, Isracard's share is 15%. In January 2011, the guarantee document was amended, to a total amount of NIS 80 million.

B. Activity in Derivative Instruments – Volume and Maturity Dates

1. The Company entered into an IRS (interest-rate swap) transaction, in shekel interest rates, with Bank Hapoalim B.M., in the amount of NIS 20 million (face value). The transaction is stated in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million. The transaction is planned for completion by January 2011.

2. The Company and its subsidiary have entered into FRA (forward-rate agreement) shekel interest-rate swap transactions with Bank Hapoalim B.M., in the amount of NIS 90 million (face value). The transactions are stated in the balance sheet at a positive gross fair value in an amount lower than NIS 0.5 million. The transactions are planned for completion by October 2012.

3. On October 28, 2010, the Company entered into three forward swap transactions, as follows:

   (1) An amount of USD 930,320, maturing January 10, 2011, at an exchange rate of 3.657.

   (2) An amount of USD 1,059,080, maturing January 10, 2012, at an exchange rate of 3.697.

   (3) An amount of USD 794,600, maturing January 10, 2013, at an exchange rate of 3.750.

   All of the transactions that have not yet matured are stated in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

C. Antitrust Issues

In May 2005, the Antitrust Commissioner (the “Commissioner”) declared the Company a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal with the court against the declaration. In any case, there is an agreement with the Commissioner according to which the Commissioner’s aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the “arrangement” described below.

In August 2005, the Israel Antitrust Authority notified the Company that the Commissioner intended to impose directives upon it under Section 30 of the Restrictive Trade Practices Law. The main points of the directives, of which the Company received a draft, are as follows:

(A) A directive instructing the Company to allow local acquiring of MasterCard credit cards by additional acquirers, as well as of Isracard cards (the brand owned by the Company), subject to compliance with the license terms specified by the Commissioner, as described below.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues (cont.)

(B) A directive instructing the Company to sign a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of the aforesaid cards, under temporary interchange-fee terms (the fee paid by acquirers of credit-card transactions to the credit-card issuers), as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards, and for acquiring by the Company of Visa cards issued by the other acquirers (the “Domestic Agreement”).

(C) A directive instructing the Company to implement a common technical interface for the execution of local acquiring.

The terms stipulated by the Commissioner for the granting of a license to acquire Isracard cards include the Company’s right to receive monetary remuneration for the license, and the obligation of the other acquirers who apply for a license for such acquiring to issue a minimum number of Isracard cards.

Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner’s declaration of monopoly will be cancelled subject to the fulfillment of the “arrangement” described below, and consequently no directives will be issued.

Following talks held between the Company, Aminit, which receives operational services from the Company, and the credit-card companies Leumi Card and CAL (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (the "**Arrangement**"), with the Commissioner's support, under which the Credit-Card Companies will enter into a detailed Domestic Agreement among themselves regarding full local acquiring in Israel, including the operation of an appropriate technical interface (the “**Technical Interface**”), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a restrictive arrangement from the Antitrust Tribunal.

The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until August 15, 2011.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues (cont.)

The terms of the Arrangement include, *inter alia*: the establishment of interchange-fee rates, which gradually decrease during the term of the Arrangement; commitment by the parties to petition the Tribunal for approval of an interchange fee for the period following the end of the Arrangement, should the parties wish to continue cross-acquiring; the obligation of the Company, under certain conditions, to set identical fees for the same merchant for acquiring transactions in Isracard and MasterCard cards; and various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into acquiring arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or acquiring with any of the Credit-Card Companies.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in acquiring Isracard and MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the Arrangement by the Tribunal and the execution of cross-acquiring of transactions through the Technical Interface.

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it ruled on the petition, an expert would be appointed to establish the components included in the principles set forth by the Tribunal with regard to the calculation of interchange fees in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January 2009. The expert was to have continued to formulate his final opinion, but before he had completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be barred from completing the opinion. In May 2010, the Commissioner announced her intention of appointing the chief economist of the Antitrust Authority as the new expert, replacing the previous expert, Dr. Bachar. On August 12, 2010, the Tribunal ruled that Dr. Parizat, chief economist of the Antitrust Authority, would be appointed to complete the opinion of Dr. Bachar. Dr. Parizat was required to submit his opinion by March 15, 2011.

The Company cannot estimate whether or when the request for permanent approval of the Arrangement will be granted.

The Company signed the Domestic Agreement in May 2007.

In June 2007, the Credit-Card Companies began direct acquiring in Israel through the Technical Interface of transactions executed using MasterCard and Visa credit cards, according to the credit cards handled by each company.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues (cont.)

The Company estimates that when directives are issued on the basis of the declaration of the Company as a monopoly, such declaration will affect the course of action of the Company and will have a material adverse effect on the Company's future financial results; however, the Company cannot estimate the extent of this effect.

D. 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. 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.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

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.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

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, 5746-1986. 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.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

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.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

E. Legal Proceedings and Pending Claims

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in a total amount of approximately NIS 2 million. 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 February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements for cardholders. The Company has filed its response to the petition for certification. The Company has strong arguments both with regard to the petition for certification of the class action and with regard to the substance of the claim. According to the Company's estimates, based on the opinion of its legal advisors, given that a question of interpretation is involved, it is possible that the petition may be approved, but the probability that the petition will be denied is greater than the probability of approval.

3. The Board of Directors of the Company has approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, and Tzameret Mimunim) in respect of all of their liabilities, with no amount limit, pursuant to Proper Conduct of Banking Business Directive No. 313 (Limits on the Indebtedness of a Sole Borrower) and the temporary directives of the Supervisor of Banks regarding the capital adequacy working framework and measurement (Basel II). In addition, the Board of Directors has approved the granting of a letter of indemnification to Global, in respect of certain balance-sheet assets, as specified in the letter of indemnification.

4. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, 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. Europay has appealed the tax assessment. In the opinion of its legal advisors, the probability of winning the appeal is high.

F. 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 440 million).

Note 18 – Contingent Liabilities and Special Agreements (cont.)

G. Agreements with a Subsidiary and with Sister Companies

The Company has agreements with Europay, Poalim Express, and Aminit, which are a subsidiary and sister companies (hereinafter: the "**Companies**"), for the operation of their credit-card systems.

The Company operates the Companies' credit-card issuance and acquiring activity, as well as the acquiring of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

H. Contractual Engagements with Banking Corporations

1. The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim B.M. (the Parent Company), Mizrahi Bank, Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**"). With regard to the agreement with Union Bank Ltd., see Note 30B.

   In general, the various agreements of the Company with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the credit-card arrangement to the Company. 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.

2. **Contractual engagement with Bank Yahav** – In January 2009, the existing agreements of the Company and Europay 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 Europay to customers of Bank Yahav. The agreements were updated during 2010, with immaterial changes.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

I. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles. The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2010	**2009**
	NIS millions	
First year	23	21
Second year	22	9
Third year	21	8
Fourth year	7	7
Fifth year	6	6
Over five years	1	6

J. Contractual Engagements with Customer Clubs

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, Europay, and Poalim Express for the issuance and operation of Hever credit cards (the "**Hever Agreement**"). In March 2009, the Company, Europay, 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, the Company 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.

Contractual engagement in Life Style Club agreement – In December 2008, the Company, Super Pharm (Israel) Ltd. ("**Super Pharm**"), and Alonyal Ltd. ("**Alonyal**") entered into a shareholders' agreement in which the company Life Style Customer Loyalty Club Ltd. (the "**Life Style Company**") was established, and the entire existing activity of the Life Style Club was assigned to it; in addition, the company Life Style Financing Ltd. (the "**Financing Company**") was established.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

J. Contractual Engagements with Customer Clubs (cont.)

The Life Style Company and the Financing Company are held as follows: Super Pharm – approximately 81%; the Company – 15%; Alonyal – approximately 4%. The aforesaid agreement establishes arrangements among the parties with regard to their ownership of the Life Style Company and the Financing Company. In addition, as part of the agreements among the parties, a contractual engagement was formed between the Company and the Life Style Company for the issuance and operation of new Life Style club cards. This agreement is in effect for 6.5 years from its inception date, and can be extended subject to its terms. The aforesaid agreement includes, among other matters, arrangements for payment and account settlement among the parties, the issuance process of the new cards, operational matters, benefits and rights of club members, and marketing.

Within the contractual engagement between the Company and the Life Style Club, a special offer for holders of the new Life Style card was agreed upon, in which cardholders will be awarded a monetary refund according to the volume of usage and the terms of the offer. An adequate provision was recorded in the financial statements. For further details, see Note 18A(1).

Note 19 – Fair Value of Financial Instruments

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A “market price” cannot be quoted for the Company’s financial instruments, because no active market exists in which they are traded, with the exception of securities. In view of the foregoing, the fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance sheet date.

Debtors in respect of credit-card activity – By discounting future cash flows, mostly according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Securities – Tradable securities: at market value. Nontradable securities: at cost.

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Note 19 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and fair-value estimates of financial instruments

	December 31, 2010			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	77	15	92	92
Debtors in respect of credit-card activity	-	11,882	11,882	11,826
Securities[(3)]	60	14	74	74
Other financial assets	-	133	133	132
Total financial assets	**137**	**12,044**	**12,181**	**12,124**
Financial liabilities:				
Credit from banking corporations	64	12	76	76
Creditors in respect of credit-card activity	-	10,729	10,729	10,677
Other financial liabilities	-	280	280	279
Total financial liabilities	**64**	**11,021**	**11,085**	**11,032**

(1) Financial instruments presented in the balance sheet at market value.

(2) Other financial instruments.

(3) Includes shares that have no available fair value, stated at cost, in the amount of NIS 14 million.

Note 19 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and fair-value estimates of financial instruments (cont.)

	December 31, 2009			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	481	12	493	493
Debtors in respect of credit-card activity	-	10,524	10,524	10,507
Securities(3)	111	67	178	178
Other financial assets	-	99	99	99
Total financial assets	**592**	**10,702**	**11,294**	**11,277**
Financial liabilities:				
Credit from banking corporations	28	19	47	47
Creditors in respect of credit-card activity	-	*10,182	10,182	10,151
Other financial liabilities	-	177	177	175
Total financial liabilities	**28**	**10,378**	**10,406**	**10,373**

(1) Financial instruments presented in the balance sheet at market value.

(2) Other financial instruments.

(3) Includes shares that have no available fair value, stated at cost, in the amount of NIS 67 million.

* Restated; see Note 1DD.

Note 20 – Interested and Related Parties of the Company and its Consolidated Subsidiaries

Reported amounts

In NIS millions

A. Balances

	December 31, 2010							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	80	526	-	-	-	-	-	-
Debtors in respect of credit-card activity(1)	*-	*-	*-	*-	-	-	114	114
Securities	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	42	69
Liabilities								
Credit from banking corporations	68	296	-	-	-	-	-	-
Creditors in respect of credit-card activity	30	30	-	-	-	-	121	135
Other liabilities	1	2	4	5	-	-	85	85
Shares (included in shareholders' equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	15,706	18,926	-	-	-	-	-	-
Guarantees given by banks	5,152	5,152	-	-	-	-	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2009							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	285	899	-	-	-	-	-	-
Debtors in respect of credit-card activity(1)	1	1	*-	*-	-	-	1	1
Securities	-	-	-	-	-	-	11	11
Investments	-	-	-	-	-	13	-	-
Other assets	2	3	-	-	-	*-	59	87
Liabilities								
Credit from banking corporations	25	33	-	-	-	-	-	-
Creditors in respect of credit-card activity	60	72	-	-	-	379	109	109
Other liabilities	*-	1	9	9	-	-	-	181
Shares (included in shareholders' equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	18,213	20,905	-	-	-	-	-	-
Guarantees given by banks	5,047	5,047	-	-	-	-	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

B. Summary of Results of Business with Interested and Related Parties

	For the year ended December 31, 2010		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	*-	*-	1
Profit (loss) from financing activity before provision for doubtful debts	(7)	-	(*-)
Other income	3	-	20
Operating expenses	-	-	-
General and administrative expenses	(6)	(12)	-
Payments to banks(1)	(239)	-	-
Total	**(249)**	**(12)**	**21**

	For the year ended December 31, 2009		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	**1	*-	1
Profit (loss) from financing activity before provision for doubtful debts	*-	-	(3)
Other income	4	-	17
Operating expenses	-	-	1
General and administrative expenses	**(6)	(18)	-
Payments to banks(1)	(2)(188)	-	-
Total	**(189)**	**(18)**	**16**

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) See Note 18H to the Financial Statements.

(2) Restated; see Note 1DD.

Note 20 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

C. Benefits to Interested Parties

	For the year ended December 31, 2010							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	12	10	-	-

	For the year ended December 31, 2009							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	18	8	-	-

D. Additional Details

- See Note 8 – Purchase of shares of Europay from Bank Hapoalim B.M.
- See Note 15 – Employee rights.
- See Note 18 – Contingent liabilities and special agreements.

Note 21 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
Income from merchants:						
Merchant fees	990	905	904	992	906	904
Other income	12	11	10	12	11	10
Total gross income from merchants	1,002	916	914	1,004	917	914
Less fees to other issuers	76	*63	*54	76	63	54
Total net income from merchants	926	853	860	928	854	860
Income in respect of credit-card holders:						
Issuer fees	93	77	60	93	77	60
Service fees	144	145	145	144	145	145
Fees from transactions abroad	31	30	27	31	30	27
Total income in respect of credit-card holders	268	252	232	268	252	232
Total income from credit-card transactions	**1,194**	**1,105**	**1,092**	**1,196**	**1,106**	**1,092**

* Reclassified; see Note 1X.

Note 22 – Profit from Financing Activity before Provision for Doubtful Debts

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
A. Financing income in respect of assets:						
From credit to cardholders	54	35	27	-	-	-
From credit to merchants	39	13	14	18	12	7
From deposits with banks	2	4	26	2	4	26
From bonds	(*-)	8	7	(*-)	8	7
From other assets	3	1	3	16	1	17
Total in respect of assets	**98**	**61**	**77**	**36**	**25**	**57**
B. Financing expenses in respect of liabilities:						
To banking corporations	12	4	5	11	4	5
On other liabilities	-	2	9	5	3	9
Total in respect of liabilities	**12**	**6**	**14**	**16**	**7**	**14**
C. In respect of derivative instruments and hedging activity:						
Non-effective share of hedging ratio	-	*-	*-	-	*-	*-
Total in respect of derivative instruments and hedging activity	-	*-	*-	-	*-	*-
D. Other:						
Other financing income	13	13	11	14	13	11
Total profit from financing activity before provision for doubtful debts(1)	99	68	74	34	31	54
(1) Of which: exchange-rate differences, net	13	11	10	13	11	10

* Amount lower than NIS 0.5 million.

Note 22 – Profit from Financing Activity before Provision for Doubtful Debts (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	2009	2008	2010	2009	2008
E. Details of results of operations in investments in bonds:						
Financing (expenses) income on an accrual basis from bonds:						
Available for sale	(*-)	8	7	(*-)	8	7
Total included in (loss) profit from financing activity in respect of assets	(*-)	8	7	(*-)	8	7
Profits from sale of bonds available for sale	*-	3	-	*-	2	-
Total included in other financing (expenses) income	*-	3	-	*-	2	-
Total	**(*-)**	**11**	**7**	**(*-)**	**10**	**7**

Note 23 – Other Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
From rental of assets	4	4	4	-	-	-
Operating fees from related parties	20	17	15	20	17	15
Profit from sales of shares	-	-	26	-	-	26
Others	11	9	3	12	10	3
Total other income	**35**	**30**	**48**	**32**	**27**	**44**

Note 24 – Operating Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Wages and related expenses	144	122	124	140	120	122
Data processing and computer maintenance	32	26	22	31	25	22
Automatic Bank Services (ABS)	13	13	16	13	13	16
Operating fees to MasterCard International	35	29	30	35	29	30
Fees to other issuers	-	*-	*-	-	-	-
Amortization and depreciation	71	55	42	68	53	39
Communications	7	7	6	7	7	6
Production and delivery	100	91	83	100	90	77
Damages from abuse of credit cards	6	6	4	6	6	4
Rent and building maintenance	23	24	21	29	29	25
Club management fees	29	11	-	29	11	-
Others	9	5	3	1	5	11
Total operating expenses	**469**	**389**	**351**	**459**	**388**	**352**

* Reclassified; see Note 1X.

Note 25 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Wages and related expenses	47	40	40	43	38	39
Advertising	45	42	54	44	42	54
Customer retention and recruitment	7	7	8	7	7	8
Gift campaigns for credit-card holders	1	*44	*35	1	*44	*35
Vehicle maintenance	5	5	5	5	5	4
Others	4	4	3	4	4	3
Total sales and marketing expenses	**109**	**142**	**145**	**104**	**140**	**143**

* Restated; see Note 1DD.

Note 26 – General and Administrative Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Wages and related expenses	25	30	15	23	30	15
Professional services	15	13	10	14	12	10
Insurance	6	6	5	6	6	5
Benefit due to share allocation	5	5	5	5	5	5
Others	15	15	16	15	15	15
Total general and administrative expenses	**66**	**69**	**51**	**63**	**68**	**50**

Note 27 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Current taxes for the tax year	75	61	70	61	50	64
Deferred taxes for the tax year	(6)	(8)[(1)]	(6)[(1)]	(1)	-[(1)]	(3)[(1)]
Taxes for previous years	(1)	2	-	(1)	1	*-
Provision for taxes on income	**68**	**55**	**64**	**59**	**51**	**61**

(1) Restated; see Note 1DD.

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:

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Tax rate applicable to the Company in Israel	25%	26%	27%	25%	26%	27%
Tax amount based on statutory rate	64	53	64	58	50	61
Tax increment (saving) in respect of:						
Unrecognized expenses	2	4	1	2	4	1
Deferred tax income due to changes in tax rates	1	**(4)	(1)	*-	(3)	(1)
Tax expenses for previous years	(1)	2	-	(1)	1	*-
Effect of Adjustment for Inflation Law, 5745-1985	-	-	-	-	-	-
Difference in tax rate on financial institutions	2	**1	*-	-	-	-
Credit for donations	*-	(1)	-	*-	(1)	-
Provision for taxes on income	**68**	**55**	**64**	**59**	**51**	**61**

* Amount lower than NIS 0.5 million.

** Reclassified.

3. Final tax assessments have been issued to the Company up to and including the tax year 2006.

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

   Also see Note 18E4.

Note 27 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred Tax Balances and Provision for Deferred Taxes (Consolidated):

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2010	2009	2010	2009
From provision for doubtful debts	24	19	-	-
From provision for vacations and bonuses	2	1	-	-
From surplus of provision for compensation and pensions over the amount funded	5	4	-	-
From adjustment of depreciable non-monetary assets	-	-	4	4
Provision for gift offer (loyalty program)	-	**6	-	-
From others	1	1	1	-
Adjustment of securities and derivatives	-	*-	-	*-
Total	**32**	**31**	**5**	**4**

Deferred Tax Balances and Provision for Deferred Taxes (the Company):

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2010	2009	2010	2009
From provision for doubtful debts	6	6	-	-
From provision for vacations and bonuses	2	1	-	-
From surplus of provision for compensation and pensions over the amount funded	5	4	-	-
From adjustment of depreciable non-monetary assets	-	-		-
Provision for gift offer (loyalty program)	-	**6	-	-
From others	1	1	-	-
Adjustment of securities and derivatives	-	*-	1	*-
Total	**14**	**18**	**1**	***-**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Note 27 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

5. Reduction in Tax Rates

On July 25, 2005, the Knesset approved the Income Tax Ordinance Amendment Law (No. 147), 5765-2005, 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), 5769-2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from 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 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 28 – Operating Segments

A. General

The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC").

The Issuance Segment

The Company issues and operates Isracard credit cards (a private brand) and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

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

Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad.

Interchange fees are fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer.

Main expenses associated with this segment: marketing, advertising, and management of customer clubs; loyalty programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Acquiring Segment

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various financial services, such as marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Note 28 – Operating Segments (cont.)

Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment.

Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements.

Financing Segment

In the last few years, credit-card companies have entered the financing business. The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability.

All income and expenses related to the Company's income-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to this segment.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance, Acquiring, and/or Financing Segment, each of which does not constitute a reportable segment. In addition, one-time income from the sale of shares of MC in 2008 is included in this segment.

Note 28 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments

	For the year ended December 31, 2010				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from externals	265	928	-	1	1,194
Inter-segmental fees	727	(727)	-	-	-
Total	992	201	-	1	1,194
Profit from financing activity before provision for doubtful debts	27	5	66	1	99
Other income	3	2	(2)	32	35
Total income	**1,022**	**208**	**64**	**34**	**1,328**
Expenses					
Provision for doubtful debts	6	3	27	2	38
Operating expenses	349	104	9	7	469
Sales and marketing expenses	70	31	5	3	109
General and administrative expenses	43	19	3	1	66
Payments to banks	388	4	-	-	392
Total expenses	856	161	44	13	1,074
Operating profit before taxes	166	47	20	21	254
Provision for taxes on operating profit	44	13	5	6	68
Operating profit after taxes	122	34	15	15	186
The Company's share in profits of affiliated companies	-	-	*-	-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	-	-	(1)	-	(1)
Net profit	**122**	**34**	**14**	**15**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	267	11,718
Of which: investments in affiliated companies	-	-	-	2	2
Average balance of liabilities	420	9,835	197	122	10,574
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

Note 28 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.)

	For the year ended December 31, 2009				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	249	855	-	1	1,105
Inter-segmental fees	717	(717)	-	-	-
Total	966	138	-	1	1,105
Profit from financing activity before provision for doubtful debts	20	9	39	*-	68
Other income	3	3	(2)	26	30
Total income	**989**	**150**	**37**	**27**	**1,203**
Expenses					
Provision for doubtful debts	5	*-	23	1	29
Operating expenses	293	88	4	4	389
Sales and marketing expenses	**111	26	2	3	142
General and administrative expenses	45	22	1	1	69
Payments to banks	**371	1	-	-	372
Total expenses	825	137	30	9	1,001
Operating profit before taxes	164	13	7	18	202
Provision for taxes on operating profit	**45	**3	2	5	55
Operating profit after taxes	119	10	5	13	147
The Company's share in profits of affiliated companies	-	-	-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	-	-	1	-	1
Net profit	**119**	**10**	**6**	**13**	**148**
Return on equity (percent net profit out of average capital)	12.3	1.0	0.6	1.3	15.2
Average balance of assets	8,453	1,202	841	457	10,953
Of which: investments in affiliated companies	-	-	-	19	19
Average balance of liabilities	356	9,561	3	57	9,977
Average balance of risk-adjusted assets	2,844	452	1,190	155	4,641

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Note 28 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.)

	For the year ended December 31, 2008				
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from externals	231	860	-	1	1,092
Inter-segmental fees	730	(730)	-	-	-
Total	961	130	-	1	1,092
Profit from financing activity before provision for doubtful debts	27	23	22	2	74
Other income[(2)]	-	-	1	47	48
Total income	**988**	**153**	**23**	**50**	**1,214**
Expenses					
Provision for doubtful debts	-	1	13	-	14
Operating expenses	262	79	3	7	351
Sales and marketing expenses	**108	31	1	5	145
General and administrative expenses	36	14	-	1	51
Payments to banks	**398	18	-	-	416
Total expenses	804	143	17	13	977
Operating profit before taxes	184	10	6	37	237
Provision for taxes on operating profit	**50	3	1	10	64
Operating profit after taxes	134	7	5	27	173
The Company's share in profits of affiliated companies	-	-	-	*-	*-
Net profit	**134**	**7**	**5**	**27**	**173**
Return on equity (percent net profit out of average capital)	15.6	0.8	0.6	3.2	20.2
Average balance of assets**	8,492	1,482	530	207	10,711
Of which: investments in affiliated companies	-	-	-	21	21
Average balance of liabilities**	367	9,456	1	49	9,873
Average balance of risk-adjusted assets**	1,906	614	487	180	3,187

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Includes nonrecurring income in respect of the sale of shares of MC in the amount of NIS 26 million.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1DD.

Note 29 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2010	2009
Total assets	12,843	*11,734
Total liabilities	11,583	*10,678
Shareholders' equity	1,260	*1,056
Nominal net profit	186	*148

* Restated; see Note 1DD.

Note 30 – Events After the Balance-Sheet Date

A. On January 20, 2011, the Company entered into a forward swap transaction with Bank Hapoalim. Information regarding the transaction:

An amount of USD 4,115,340 maturing December 1, 2011, at an exchange rate of 3.59.

An amount of USD 4,427,674 maturing December 3, 2012, at an exchange rate of 3.655.

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