Aminit Ltd.

Annual Report

For the year ended December 31, 2010

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Aminit Ltd.

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 financial statements of Aminit Ltd. ("**the Company**" or "**Aminit**") for the year 2010.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1979 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), and is a company under its full ownership.

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

The Company issues, acquires, and operates Visa credit cards issued for use in Israel and abroad under a license granted to the Company by the Visa International Service Association ("**Visa Association**").

The Company's operations are conducted through three operating segments: the Issuance Segment, which handles cardholders; the Acquiring Segment, which handles merchants; and the Travelers' Checks Segment.

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.

Contractual engagement between the Company and Isracard Ltd. – Under an agreement between the Company and Isracard Ltd. ("**Isracard**"), a sister company, Isracard administers and operates the Company's credit-card issuance activity, acquiring activity in Israel of transactions executed with merchants using Visa cards, and travelers' checks activity, on behalf of the Company ("**the Arrangement**"). The Company participates in all costs common to Isracard and the Company, based on its relative share of the activity in question. In return for Isracard's activity in the operation of the Arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties.

Share issuance – On August 31, 2010, the Company issued 2,090 common shares with a face value of NIS 1 each to Bank Hapoalim, at a price of NIS 4,067 per share. The total consideration was in the amount of NIS 8.5 million.

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

Developments in the Global Economy

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

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

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

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

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

The Israeli Economy

Economic Activity in Israel

The Israeli economy continued to display rapid growth, encompassing all sectors. According to estimates by the Central Bureau of Statistics, gross domestic product grew by 4.5% in 2010, while the business product grew by 5.3%. Industrial production increased by 7.8%; activity in the commerce sector and the food and hospitality services sector increased by 8.1%; the transportation, storage, and communications sectors showed 5.3% growth; and the business and financial services sectors posted 3.2% growth. Activity in the construction sector increased by 6.1%. The global tailwinds increased demand for exports, with an impressive expansion in exports to the Asian countries. The labor market continued to show surprisingly positive results, with the unemployment rate down to an average level of approximately 6.7%, and a 3.5% increase in the number of employed persons. Consumer confidence was influenced by the good condition of the labor market and by the gains in the capital market, and remained high throughout the year. These conditions, along with the expansive monetary policy, increased the demand for consumption and investments. Israel's strong fiscal position permitted a 3.7% increase in public consumption expenditures, which also contributed to increased demand and economic growth. Going into 2011, the economic data remain robust. The main risk factors stem from the global arena: while the developments in Egypt may not have a strong impact in the near term, it is difficult to estimate their geopolitical implications, and there may be an effect on the Israeli economy in the longer term. In addition, the developed countries are only beginning to cope with their sovereign debts, a process likely to have a moderating effect in the future. 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, which as noted above, issues and acquires Visa credit cards; (2) Isracard and Europay (Eurocard) Israel Ltd., a subsidiary of Isracard ("**Europay**"), which issue and acquire Isracard and MasterCard credit cards, respectively; (3) Poalim Express Ltd., a sister company ("**Poalim Express**"), which issues and acquires American Express 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**"), a subsidiary of CAL, which to the best of the Company's knowledge issues and acquires Diners credit cards.

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

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

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

For further details, and with regard to various directives in the area of cross-acquiring of 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 Isracard 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	16	6	22

Number of valid credit cards as of December 31, 2009

	Active cards	Inactive cards	Total
Bank cards	17	7	24

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

	For the year ended December 31	
	2010	2009
Bank cards	507	487

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.

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

Profit and Profitability

The Company’s net profit totaled NIS 1.1 million in 2010, similar to 2009.

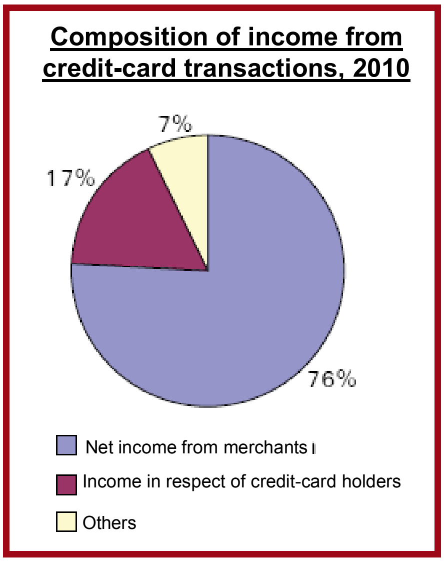
Net return on average equity reached 4.1% in 2010, compared with 4.8% in 2009. The decrease in the rate of return resulted from an increase in the equity capital of the Company during 2010.

Developments in Income and Expenses

Income totaled NIS 45.7 million, compared with NIS 33.4 million in 2009, an increase of 36.8%. For an explanation of this increase, see the section "Income from credit-card transactions," below.

Income from credit-card transactions totaled NIS 42.6 million, compared with NIS 30.7 million in 2009, an increase of 38.8%. The increase resulted from the following factors:

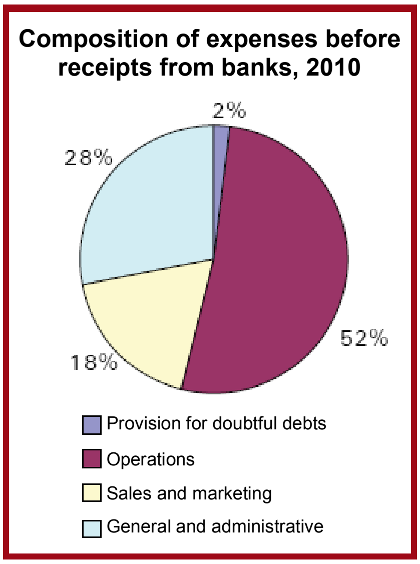
- Net income from merchants totaled NIS 32.3 million, compared with NIS 20.1 million in 2009, an increase of 60.7%. This increase resulted from an increase in the number of merchants with acquiring agreements with the Company.
- Other income totaled NIS 3.0 million, compared with NIS 2.9 million in 2009, an increase of 3.4%.



Profit from financing activity before provision for doubtful debts totaled NIS 2.9 million, compared with NIS 2.6 million in 2009, an increase of 11.5%, resulting from an increase in the volume of the Company's activity.

Other income totaled NIS 0.2 million, compared with NIS 0.1 million in 2009, an increase of 100%.

Expenses before payments to banks / receipts from banks totaled NIS 41.0 million, compared with NIS 33.4 million in 2009, an increase of 22.8%, which resulted from an increase in the volume of the company's activity.



Expenses including payments to banks / receipts from banks totaled NIS 44.2 million, compared with NIS 32.0 million in 2009, an increase of 38.1%, which resulted from an increase in the volume of the Company's activity.

The provision for doubtful debts totaled NIS 1.0 million, compared with NIS 0.4 million in 2009, an increase of 150%.

Operating expenses totaled NIS 21.5 million, compared with NIS 18.1 million in 2009, an increase of 18.8%. The increase mainly resulted from an increase in the volume of the Company's acquiring activity.

Sales and marketing expenses totaled NIS 7.2 million, compared with NIS 5.6 million in 2009, an increase of 28.6%, mainly resulting from savings on advertising expenses.

General and administrative expenses totaled NIS 11.3 million, compared with NIS 9.3 million in 2009, an increase of 21.5%, resulting from the increase in the volume of the Company's activity.

Payments to banks, under agreements with the banks, totaled NIS 3.2 million, compared with net receipts from banks in the amount of NIS 1.4 million in 2009. The change resulted from an increase in the Company's surplus of income over expenses.

The ratio of expenses to income, before net payments to banks / receipts from banks, reached 89.7%, compared with 100% in 2009.

Operating profit before taxes totaled NIS 1.5 million, compared with NIS 1.4 million in 2009, an increase of 7.1%.

The return of operating profit before taxes on average equity reached 5.5%, compared with 6.1% in 2009.

The provision for taxes on operating profit totaled NIS 0.4 million, compared with NIS 0.3 million in 2009. The effective rate of tax out of total operating profit before taxes reached 27%, compared with 21% in 2009.

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2010 totaled NIS 888.1 million, compared with NIS 647.6 million on December 31, 2009.

Developments in the principal balance-sheet items:

	December 31			
	2010	2009	Change	
	NIS millions		NIS millions	%
Total balance sheet	888.1	647.6	240.5	37
Debtors in respect of credit-card activity	835.6	591.0	244.6	41
Cash on hand and deposits with banks	51.2	55.6	(4.4)	(8)
Travelers' checks in circulation	11.0	12.6	(1.6)	(13)
Creditors in respect of credit-card activity	777.4	542.6	234.8	43
Subordinated notes	16.1	3.5	12.6	360
Other liabilities	49.5	65.2	(15.7)	(24)
Shareholders' equity	33.3	23.7	9.6	41

Debtors in respect of credit-card activity totaled NIS 835.6 million on December 31, 2010, compared with NIS 591.0 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.

Cash on hand and deposits with banks totaled NIS 51.2 million on December 31, 2010, compared with NIS 55.6 million at the end of 2009.

Travelers' checks in circulation totaled NIS 11.0 million on December 31, 2010, compared with NIS 12.6 million at the end of 2009. The decrease resulted from redemptions of travelers' checks.

Creditors in respect of credit-card activity totaled NIS 777.4 million on December 31, 2010, compared with NIS 542.6 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 significant increase resulted from an increase in the number of merchants who have entered into acquiring agreements with the Company.

Subordinated notes totaled NIS 16.1 million on December 31, 2010, resulting from the issuance of notes in the amount of approximately NIS 3.5 million in December 2009, and an additional issuance in the amount of approximately NIS 12 million in March 2010. Pursuant to a resolution of the Board of Directors of the Company, the linkage terms of all of the notes were changed, from CPI-linked with fixed interest to floating interest rates only.

Other liabilities totaled NIS 49.5 million on December 31, 2010, compared with NIS 65.2 million at the end of 2009. The decrease mainly resulted from a decrease in the amount of debt to Isracard.

Shareholders' equity totaled NIS 33.3 million on December 31, 2010, compared with NIS 23.7 million at the end of 2009. The increase in shareholders' equity mainly resulted from share issuance.

The ratio of shareholders' equity to the balance sheet reached 3.7% on December 31, 2010, similar to 2009.

The ratio of capital to risk-adjusted assets according to the Basel II directives reached 12.3% on December 31, 2010, compared with 10.9% on December 31, 2009.

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

The Board of Directors and Management of the Company have 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 customer (the cardholder) and interchange fees or merchant fees from the acquirer or merchant, respectively, for card issuance and operational services.

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

Bank cards issued by the Company are bank cards distributed to owners of accounts at banks with which the Company has agreements, including Bank Hapoalim, Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "**Banks Under Arrangement**").

As noted, Isracard administers and operates issuance activity, credit-card acquiring activity, and travelers' checks activity on behalf of the Company.

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

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

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

Products and Services

The Company issues Visa credit cards for use in Israel and abroad. The cards are issued as bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The various products and services offered through Isracard include various credit plans based on Credit plans; special-purpose loans for private and corporate clients; various all-purpose loans based on credit facilities in credit cards; various options for spreading payments; and information services and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling 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 in 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 marketing, advertising, 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 cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

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

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors. As of the date of the report, there are no cardholders whose share of the volume of transactions executed in the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2010.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is administered and operated by Isracard, on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, operation of a loyalty program, and marketing and sales promotion, including through marketing campaigns, joint offers with leading entities in the various sectors, the operation of a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the "Cessation of Activity of a Bank in Israel" and "Competition."

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 relative to this sector.

Competition over cardholders is apparent on several levels: 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; and competition for cardholders' "wallet" (which may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of products issued by the Company and/or increasing the volume of use of such products.

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, through Isracard, which administers and operates credit-card issuance activity on behalf of the Company, takes the following main actions: investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; reinforcement of status and image through advertising, benefits, and various offers for cardholders; marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and innovation – responding 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: the licensing agreement with the Visa Organization for the issuance and acquiring of credit cards; the arrangement with Isracard for the management and operation of credit-card issuance and acquiring activity; the Company's image and brand; the Company's system of agreements with banks in Israel; human capital; the products and services offered to various types of customers; an advanced service system allowing a high quality of customer service; and professional, skilled, experienced human capital.

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

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 using 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, Isracard, Europay, Poalim Express, 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, advance payments, and discounting.

As noted, Isracard administers and operates issuance activity, credit-card acquiring activity, and travelers' checks activity on behalf of the Company.

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

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

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card acquiring services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary investments in technological infrastructures, an operational system, and large-scale advertising and marketing, with large investments; (2) the need to obtain a license from international organizations to acquire the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a 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 merchants financial services, such as loans, discounting services for credit-card sales slips, advance payments, 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 from cash withdrawals by tourists in Israel were allocated to the Acquiring Segment.

The main income items in the Acquiring Segment include fees from merchants, net of interchange fees, which are allocated to the Issuance Segment, as well as financing income (net). The main expenses associated with this 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.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, as well as discounting companies, which enter into three-fold agreements: agreements with the Company, as an acquirer, for the provision of discounting services, and concurrently, agreements with merchants, which also have acquiring agreements with the Company. For this purpose, the discounting company is a customer of the Company for the provision of acquiring services, like any other merchant, and is counted quantitatively along with the merchants that have acquiring agreements with the Company.

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

Marketing and Sales

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

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

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

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

In order to cope with the competition in this sector, the Company, including through Isracard, which administers and operates credit-card acquiring activity on behalf of the Company, takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to 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 financing and loan services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the 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) the licensing agreement with the Visa Organization for the issuance and acquiring of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and acquiring activity; (3) a supporting marketing, sales, and service system specializing in providing suitable solutions to merchants, and containing professional, skilled, experienced personnel; (4) a brand with presence and power; and (5) an advanced technological infrastructure allowing response to the needs of the various merchants.

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 Visa and MasterCard 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 Travelers' Checks Segment

Within this segment, the Company acquires Visa travelers' checks, mainly denominated in US dollars, issued prior to January 1, 2008, at an insignificant volume. The issuance of Visa travelers' checks was terminated by the Company as of that date, due to the policy of Visa International. The main income item in this segment is interest income arising from deposits of funds from the sale of checks not yet redeemed. The main expenses in this segment are expenses for the operation of the acquiring system.

Seasonality

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

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

Profit and loss information:	Issuance Segment	Acquiring Segment	Travelers' checks	Other[1]	Total
	For the year ended December 31, 2010				
Income					
Fees from externals	7.4	35.2	-	-	42.6
Intersegmental fees	0.5	(0.5)	-	-	-
Total	**7.9**	**34.7**	**-**	**-**	**42.6**
Profit from financing activity before provision for doubtful debts	-	2.7	0.2	-	2.9
Other income	-	-	-	(2) 0.2	0.2
Total income	**7.9**	**37.4**	**0.2**	**0.2**	**45.7**
Expenses					
Provision for doubtful debts	-	1.0	-	-	1.0
Operation	2.9	18.0	0.6	-	21.5
Sales and marketing	3.8	3.4	-	-	7.2
General and administrative	0.8	10.5	-	-	11.3
Payments to banks (net receipts from banks)	(1.1)	4.5	(0.4)	0.2	3.2
Total expenses	**6.4**	**37.4**	**0.2**	**0.2**	**44.2**
Operating profit (loss) before taxes	1.5	*-	(*-)	*-	1.5
Provision for taxes on operating profit	0.4	*-	(*-)	*-	0.4
Net profit (loss)	**1.1**	***-**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.1	-	-	-	4.1
Average balance of assets	0.2	707.9	12.6	0.2	720.9
Average balance of liabilities	0.3	(63.9)	0.3	8.6	(54.7)
Average balance of risk-adjusted assets	40.4	229.8	3.7	0.1	274.0

* Amount lower than NIS 50 thousand.

(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) Redemption of Class C shares by Visa Inc.

Financial Information on the Company's Operating Segments (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**	**Travelers' checks**	**Other[1]**	**Total**
Income					
Fees from externals	7.7	23.0	-	-	30.7
Intersegmental fees	0.5	(0.5)	-	-	-
Total	**8.2**	**22.5**	**-**	**-**	**30.7**
Profit from financing activity before provision for doubtful debts	-	2.2	0.4	-	2.6
Other income	-	-	-	[2] 0.1	0.1
Total income	**8.2**	**24.7**	**0.4**	**0.1**	**33.4**
Expenses					
Provision for doubtful debts	-	0.4	-	-	0.4
Operation	3.2	14.5	0.4	-	18.1
Sales and marketing	2.6	3.0	-	-	5.6
General and administrative	0.8	8.5	-	-	9.3
Payments to banks (net receipts from banks)	0.3	(1.8)	(*-)	0.1	(1.4)
Total expenses	**6.9**	**24.6**	**0.4**	**0.1**	**32.0**
Operating profit (loss) before taxes	**1.3**	**0.1**	**(*-)**	***-**	**1.4**
Provision for taxes on operating profit	0.3	*-	(*-)	*-	0.3
Net profit (loss)	**1.0**	**0.1**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.3	0.4	-	-	4.7
Average balance of assets	71.4	470.1	14.4	0.2	556.1
Average balance of liabilities	8.2	510.8	14.2	0.2	533.4
Average balance of risk-adjusted assets	15.0	457.5	2.9	(*-)	475.4

* Amount lower than NIS 50 thousand.

(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) Redemption of Class C shares by Visa Inc.

Financial Information on the Company's Operating Segments (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**	**Travelers' checks**	**Other(1)**	**Total**
Income					
Fees from externals	7.7	**14.6	-	-	22.3
Intersegmental fees	1.2	(1.2)	-	-	-
Total	**8.9**	**13.4**	**-**	**-**	**22.3**
Profit from financing activity before provision for doubtful debts	-	0.5	0.7	-	1.2
Other income	-	-	-	0.2	0.2
Total income	**8.9**	**13.9**	**0.7**	**0.2**	**23.7**
Expenses					
Provision for doubtful debts	-	0.1	-	-	0.1
Operation	3.1	**10.8	0.4	-	14.3
Sales and marketing	4.7	2.8	-	-	7.5
General and administrative	0.7	5.7	-	-	6.4
Payments to banks (net receipts from banks)	(0.6)	(5.3)	0.2	0.1	(5.6)
Total expenses	**7.9**	**14.1**	**0.6**	**0.1**	**22.7**
Operating profit (loss) before taxes	**1.0**	**(0.2)**	**0.1**	**0.1**	**1.0**
Provision for taxes on operating profit	0.2	(0.1)	0.1	-	0.2
Net profit (loss)	**0.8**	**(0.1)**	*-	**0.1**	**0.8**
Return on equity (percent net profit out of average capital)	8.7	(1.0)	-	0.5	8.2
Average balance of assets	61.3	286.1	14.5	(*-)	361.9
Average balance of liabilities	5.4	333.6	14.3	0.2	353.5
Average balance of risk-adjusted assets	14.9	281.0	3.0	(*-)	298.9

* Amount lower than NIS 50 thousand.

** Reclassified.

(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.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 1.1 million, compared with NIS 1.0 million in 2009, an increase of 10%.

Net return on average equity in the segment reached 4.1%, compared with 4.3% in 2009. The decrease in the rate of return resulted from an increase in the Company's equity capital during 2010.

Developments in Income and Expenses

The segment's income totaled NIS 7.9 million, compared with NIS 8.2 million in 2009, a decrease of 3.7%.

Expenses, including net receipts from banks, totaled NIS 6.4 million, versus payments to banks in the amount of NIS 6.9 million in 2009, a decrease of 7.2%.

Operating expenses totaled NIS 2.9 million, compared with NIS 3.2 million in 2009, a decrease of 9.4%.

Sales and marketing expenses totaled NIS 3.8 million, compared with NIS 2.6 million in 2009, an increase of 46.2%, resulting from advertising expenses.

General and administrative expenses totaled NIS 0.8 million, similar to 2009.

Net payments receipts from banks: A total of NIS 1.1 million was received from banks in 2010, compared with payments to banks in the amount of NIS 0.3 million in 2009.

Operating profit before taxes totaled NIS 1.5 million, compared with NIS 1.3 million in 2009, an increase of 15.4%.

The rate of return of operating profit before taxes on average equity reached 5.5%, compared with 5.6% in 2009. The decrease in the rate of return resulted from an increase in the Company's equity capital during 2010.

The provision for taxes on operating profit totaled NIS 0.4 million, compared with NIS 0.3 million in 2009.

Profit and Profitability – Acquiring Segment

The segment's net profit totaled less than NIS 50 thousand, compared with NIS 0.1 million in 2009.

Net return on average equity in the segment reached less than 0.5% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 37.4 million, compared with NIS 24.7 million in 2009, an increase of 51.4%, mainly resulting from an increase in the volume of transactions in credit cards acquired by the Company.

Operating income totaled NIS 34.7 million, compared with NIS 22.5 million in 2009, an increase of 54.2%.

Profit from financing activity before provision for doubtful debts totaled NIS 2.7 million, compared with NIS 2.2 million in 2009.

Expenses, including payments to banks, totaled NIS 37.4 million, compared with net receipts from banks in the amount of NIS 24.6 million in 2009, an increase of 52%, resulting from an increase in the volume of the Company's activity.

Operating expenses totaled NIS 18.0 million, compared with NIS 14.5 million in 2009, an increase of 24.1%, resulting from an increase in the volume of the Company's activity.

Sales and marketing expenses totaled NIS 3.4 million, compared with NIS 3.0 million in 2009, an increase of 13.3%.

General and administrative expenses totaled NIS 10.5 million, compared with NIS 8.5 million in 2009, an increase of 23.5%, resulting from an increase in the volume of the Company's activity.

Payments to banks totaled NIS 4.5 million in 2010, compared with net receipts from banks in the amount of NIS 1.8 million in 2009.

Operating profit before taxes totaled less than NIS 50 thousand, compared with NIS 0.1 million in 2009.

The rate of return of operating profit before taxes on average equity reached less than 0.5%.

The provision for taxes on operating profit totaled less than NIS 50 thousand, similar to 2009.

Profit and Profitability – Travelers' Checks Segment

The segment's loss totaled less than NIS 50 thousand, similar to 2009.

Developments in Income and Expenses

The segment's income totaled NIS 0.2 million, compared with NIS 0.4 million in 2009, a decrease of 50%.

The segment's expenses totaled NIS 0.2 million, compared with NIS 0.4 million in 2009, a decrease of 50%.

The decrease in income and expenses resulted from the fact that the Company ceased issuing travelers' checks on January 1, 2008. The Company continues to acquire travelers' checks issued before that date.

Intangible Assets

The Company holds a long-term license from the Visa Organization for the issuance and acquiring of Visa cards, and for the acquiring of Visa travelers' checks. In addition, as a member of the Visa Organization, the Company has a general right to use the brands owned by the Visa Organization.

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

Service Providers

As noted, under an arrangement between the Company and Isracard, Isracard administers and operates credit-card issuance and acquiring activity and travelers' checks activity on behalf of the Company. For further details, see "Contractual engagement between the Company and Isracard," above.

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, through Isracard, has contracted with Beeri Printers for the provision of production, printing, and binding services of the statement of debits and credits sent by the Company to cardholders and merchants on a monthly basis. In the event of cancellation of the contractual engagement with Beeri Printers for an unforeseen reason, it would be 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

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.

Financing

The Company finances its operations mainly through its own means and through current credit from Isracard.

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

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

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

Restrictions and Supervision of the Company's Operations

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

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

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

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

Antitrust Issues

Following talks held between the Company, its sister company Isracard Ltd., which provides operational services to the Company, and the credit-card companies Leumi Card Ltd. and Cartisei Ashrai Leisrael Ltd. (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Antitrust Commissioner (hereinafter: the "**Commissioner**"), the Credit-Card Companies reached an arrangement among themselves (hereinafter: 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 (hereinafter: 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 B.M., 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 on October 30, 2006, under the terms formulated and agreed upon with the Antitrust 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 (the fee paid by acquirers of credit-card transactions to the issuers of the credit cards), 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.

On November 11, 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.

In May 2007, the Company signed a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of Visa and MasterCard cards, under temporary interchange-fee terms, as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards.

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.

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 granted debiting authorizations by the customer. These directives will apply, with the necessary changes, to all transfers of activity in credit cards, including the transfer of activity in a card not issued by a bank, and the transfer of activity other than in the course of the closure of an account. Concurrently with the aforesaid amendment of Directive No. 432, appropriate amendments were made to Proper Conduct of Banking Business Directive No. 470 concerning charge cards, in order to apply the arrangement regarding the transfer of activity to credit-card companies, by including Directive No. 432 in the list of Proper Conduct of Banking Business Directives applicable to credit-card companies. The directives took effect as of September 1, 2010. At this stage, it is not possible to estimate the financial effect of this amendment.

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

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

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

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

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

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

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

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

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

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

Legal Proceedings

No legal claims have been filed against the Company.

Contingent Liabilities

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 50% of its shareholders' equity, according to its financial statements published most recently at the date of the actual indemnification.

Objectives and Business Strategy

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

1. Improving the level of revenues and profitability.
2. Expansion of the distribution and sales-promotion base.
3. Extending collaborations with merchants.
4. Ongoing improvement in the quality of service.
5. Targeted actions to create customer preference for the credit cards issued by the Company.
6. Expansion in the area of credit and financing for merchants.
7. 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 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.

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 Data Security.

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

The business activity of the Company is exposed to market risks arising from volatility in 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.

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

A. Currency exposure (including CPI)

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

The Company applies a comprehensive policy for the management of market risk 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.

Interest-rate exposure exists in the shekel segment, but the Company believes that its exposure to changes in interest rates is immaterial.

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

	December 31, 2010				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	860.1	2.3	19.8	2.3	884.5
Financial liabilities	821.9	0.7	20.1	2.5	845.2
Net fair value of financial instruments	**38.2**	**1.6**	**(0.3)**	**(0.2)**	**39.3**

	December 31, 2009				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	620.2	4.1	20.5	1.5	646.3
Financial liabilities	594.7	7.8	20.2	0.6	623.3
Net fair value of financial instruments	**25.5**	**(3.7)**	**0.3**	**0.9**	**23.0**

B. Effect of hypothetical changes in interest rates on the 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%	38.2	1.6	(0.3)	(0.2)	-	39.3	*-	-
Immediate parallel increase of 0.1%	38.2	1.6	(0.3)	(0.2)	-	39.3	*-	-
Immediate parallel decrease of 1%	38.2	1.6	(0.3)	(0.2)	-	39.3	*-	-

	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		Foreign currency**				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	25.5	(3.7)	0.2	0.9	-	22.9	(0.1)	(0.4)
Immediate parallel increase of 0.1%	25.5	(3.7)	0.3	0.9	-	23.0	-	-
Immediate parallel decrease of 1%	25.6	(3.7)	0.4	0.9	-	23.2	0.2	0.9

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

** Including Israeli currency linked to foreign currency.

C. 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 loans from Isracard.

During the period, the Company usually invested its disposable capital in deposits with banks in shekels.

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

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

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 tracking 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 313 of the Bank of Israel.

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

Credit Control Unit

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

Provision for Doubtful Debts

The provision for doubtful debts includes a specific 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 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.

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
	Reported amounts
1. Non-performing assets	
Impaired credit to the public not accruing interest income:	
Examined on an individual basis	-
Examined on a group basis*	-
Total impaired debts not accruing interest income	-
Total non-performing assets	**-**

	Balance as of December 31, 2010
	Reported amounts
2. Problematic commercial credit risk (1)	
Balance-sheet credit risk in respect of the public	0.5
Total problematic commercial credit risk in respect of the public	0.5
Total problematic commercial credit risk	**0.5**

* 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

	Balance as of Dec. 31, 2010
Balance of retained earnings as of Dec. 31, 2010 included in the financial statements	9.0
Cumulative effect net of tax of initial implementation of the new directives as of Dec. 31, 2010	(1.1)
Of which:	
Change in provision for credit losses	(1.2)
Related tax effect	0.1
Balance of retained earnings as of Dec. 31, 2010 under the new directives	**7.9**

Risk and Credit Indices

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

Capital Adequacy

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

The assessment is performed by a summation of capital and sorting of assets by risk rates and market-risk evaluations, with the addition of operational risk. Capital adequacy is determined by calculating the rate of capital out of total assets, weighted by the risk rate, as noted above, plus the market risk and the operational risk. For further details, see the section “Basel II,” below. For details regarding reporting on capital adequacy, see Note 15B 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 matters, to define capital-adequacy requirements in relation to the various types of 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.

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

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

- Adopt a target core capital ratio, as of December 31, 2010, of no less than 7.5%, after all of the required deductions from Tier I capital.

- Submit a work plan for compliance with this target to the Supervisor of Banks by the end of August 2010.

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

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

Risk Appetite

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

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

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

Capital Adequacy Target

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

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

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

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

Capital Management

The objective of capital management is to optimize return on equity while complying with the detailed risk-appetite definitions established by the Board of Directors of the Company, subject to regulatory directives. Accordingly, 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	51	-
2	Structure of capital	51	52
3	Capital adequacy	53	50
4	Credit risk – general disclosure requirements	54	-
5	Credit risk	-	53
6	Credit risk – disclosure for portfolios treated using IRB approaches (not relevant to the Company)	-	-
7	Credit risk mitigation	67	63
8	General disclosure regarding exposures related to credit risk of counterparties	68	-
9	Securitization (not relevant to the Company)	-	-
10	Disclosure by companies using the standard approach	68	-
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	71	71

Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2010	December 31, 2009
	NIS millions	
Tier I capital, after deductions*	33.3	23.7
Tier II capital, after deductions**	16.1	3.5
Total overall capital	**49.4**	**27.2**

* Subordinated notes in the amount of NIS 12 million were issued to Bank Hapoalim (the Parent Company) during March 2010.

** Subordinated notes included in lower tier II capital shall not exceed 50% of the tier I capital not allocated to market risks (to the extent that the Company holds tier III capital) after the required deductions from tier I capital only.

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:				
Credit risk	340.8	30.7	205.1	18.5
Market risks – foreign currency exchange rate risk	0.4	*-	1.4	0.1
Operational risk	61.6	5.5	42.6	3.8
Total weighted balances of risk-adjusted assets	**402.8**	**36.2**	**249.1**	**22.4**

* Amount lower than NIS 50 thousand.

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	8.3	9.5
Ratio of tier I capital to risk-adjusted assets	8.3	9.5
Ratio of total capital to risk-adjusted assets	12.3	10.9
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 0.3%.

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.

In general, the capital requirements of the Company are based on its financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Supervisor of Banks.

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.

Tier I capital includes shareholders' equity (not including unrealized profits in respect of the statement of securities available for sale at fair value).

Lower tier II capital consists of subordinated notes with the following main characteristics: a term to maturity of no less than five years; issued without collateral; rights under the instruments are subordinated to the claims of other creditors of the Bank; and of the amount thereof recognized as tier II capital, as noted, 20% shall be deducted at the beginning of each year in the last five years before their maturity date (in the event of a subordinated note settled in installments, such a deduction should be made from each installment).

Limits on the Capital Mix

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

- Total core capital shall constitute at least 70% of tier 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 from the capital in this tier only.
- Subordinated notes included in lower tier II capital shall not exceed 50% of tier I capital not allocated to market risks (to the extent that the banking corporation holds tier III capital), after the required deductions from tier I capital 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	0.8	0.8
Premium on shares	23.5	15.0
Retained earnings	9.0	7.9
Total core capital	33.3	23.7
Total tier I capital	33.3	23.7
Tier II capital	16.1	3.5
Total eligible capital	**49.4**	**27.2**

The effect on capital of the implementation of the impaired debt directives is a decrease in retained earnings in the amount of NIS 1.1 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:				
Banking corporations	323.5	29.1	194.8	17.5
Corporations	10.8	1.0	4.2	0.4
Small businesses	5.4	0.5	5.3	0.5
Other assets	1.1	0.1	0.8	0.1
Total credit risk	340.8	30.7	205.1	18.5
Market risks – foreign currency exchange rate risk	0.4	*-	1.4	0.1
Operational risk	61.6	5.5	42.6	3.8
Total weighted balances of risk-adjusted assets / capital requirements	402.8	36.2	249.1	22.4

* Amount lower than NIS 50 thousand.

	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)	49.4	27.2
Ratio of core capital to risk-adjusted assets	8.3%	9.5%
Ratio of tier I capital to risk-adjusted assets	8.3%	9.5%
Ratio of total capital to risk-adjusted assets	12.3%	10.9%
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

Credit Risk – General Disclosure Requirements

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

Manner of Establishing the Provision for Doubtful Debts

The Company performs a specific provision for doubtful debts.

Specific Provision

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

Bad Debts

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

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

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

Credit Risk Management

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

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

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

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

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

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

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

Principles of Credit Concentration Risk Management

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

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

Assigning Risk Ratings to Customers Based on Statistical Models

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

- Models are divided as follows:

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

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

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

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

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

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

Establishing the Hierarchy of Credit Granting Authority

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

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

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

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

Exposure to Financial Institutions

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

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

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

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

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

Credit exposure to financial institutions results from:

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

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

Independent Supervision

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

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

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

- Identifying new risks and emerging risks.

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

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

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

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

* With regard to unutilized credit facilities of credit cards for holders of retail cards, 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					
	NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
Banking corporations	763.6	51.2	814.8	0.1	-	814.9
Corporations	10.9	-	10.9	1.4	-	12.3
Retail to individuals	48.8	-	48.8	382.0	-	430.8
Small businesses	12.4	-	12.4	32.3	-	44.7
Other assets	-	1.2	1.2	-	-	1.2
Total exposures	**835.7**	**52.4**	**888.1**	**415.8**	**-**	**1,303.9**

	December 31, 2009					
	NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
Banking corporations	525.7	55.6	581.3	*-	-	581.3
Corporations	4.4	-	4.4	2.5	-	6.9
Retail to individuals	47.0	-	47.0	456.3	-	503.3
Small businesses	14.0	-	14.0	54.9	-	68.9
Other assets	-	0.9	0.9	-	-	0.9
Total exposures	**591.1**	**56.5**	**647.6**	**513.7**	**-**	**1,161.3**

* Amount lower than NIS 50 thousand.

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

	December 31, 2010					
	NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure(1)**
Banking corporations	643.4	55.8	699.2	-	-	699.2
Corporations	8.5	-	8.5	1.4	-	9.9
Retail to individuals	46.4	-	46.4	439.2	-	485.6
Small businesses	13.8	-	13.8	37.3	-	51.1
Government	-	-	-	-	-	-
Other assets	-	0.8	0.8	-	-	0.8
Total exposures	**712.1**	**56.6**	**768.7**	**477.9**	**-**	**1,246.6**

(1) Average exposure calculated on a quarterly basis.

	December 31, 2009					
	NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure(1)**
Banking corporations	470.6	42.0	512.6	*-	-	512.6
Corporations	9.9	-	9.9	1.0	-	10.9
Retail to individuals	45.1	-	45.1	248.8	-	293.9
Small businesses	9.8	-	9.8	24.9	-	34.7
Government	-	5.5	5.5	-	-	5.5
Other assets	-	0.8	0.8	-	-	0.8
Total exposures	**535.4**	**48.3**	**583.7**	**274.7**	**-**	**858.4**

(1) Average exposure calculated on a quarterly basis.

* Amount lower than NIS 50 thousand.

Exposure	Credit risk	Type of exposure	Problematic debt(1)	Debt in arrears(2)	Provision for doubtful debts
			December 31, 2010		
			NIS millions		
Corporations	Balance sheet	Credit	0.3	-	0.3

Exposure	Credit risk	Type of exposure	Problematic debt(1)	Debt in arrears(2)	Provision for doubtful debts
			December 31, 2009		
			NIS millions		
Corporations	Balance sheet	Credit	0.4	-	0.4

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

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

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					
					Balance-sheet balance	
	Up to 1 year	1 year to 2 years	2 years to 3 years	Total cash flows	No maturity period	Total
Cash and deposits with banks	51.2	-	-	51.2	-	51.2
Credit:						
Debtors in respect of credit cards	52.4	2.0	0.3	54.7	(0.3)	54.4
Credit to merchants	13.8	0.2	-	14.0	0.5	14.5
Companies and international credit-card organization	752.4	11.1	3.1	766.6	-	766.6
Income receivable and others	0.1	-	-	0.1	-	0.1
Other assets	(0.1)	0.1	0.2	0.2	0.1	0.3
Non-monetary assets	-	-	-	-	1.0	1.0
Off balance sheet – credit facilities	415.8	-	-	415.8	-	415.8
Total	**1,285.6**	**13.4**	**3.6**	**1,302.6**	**1.3**	**1,303.9**

	December 31, 2009					
	Expected contractual future cash flows, in NIS millions					
					Balance-sheet balance	
	Up to 1 year	1 year to 2 years	2 years to 3 years	Total cash flows	No maturity period	Total
Cash and deposits with banks	55.6	-	-	55.6	-	55.6
Credit:						
Debtors in respect of credit cards	51.9	1.8	0.4	54.1	-	54.1
Credit to merchants	9.4	0.3	-	9.7	0.6	10.3
Companies and international credit-card organization	517.2	6.3	2.4	525.9	(0.1)	525.8
Income receivable and others	0.8	-	-	0.8	-	0.8
Other assets	0.2	-	-	0.2	0.2	0.4
Non-monetary assets	-	-	-	-	0.6	0.6
Off balance sheet – credit facilities	495.6	-	-	495.6	18.1	513.7
Total	**1,130.7**	**8.4**	**2.8**	**1,141.9**	**19.4**	**1,161.3**

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						
		NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	430.8	-	-	430.8
Small businesses	Unrated	-	-	-	44.7	-	-	44.7
Corporations	Unrated	-	-	-	-	12.3	-	12.3
Banking corporations	Unrated	-	380.1	383.3	-	-	-	763.4
	Rated	-	32.4	19.1	-	-	-	51.5
Other assets	Unrated	0.1	-	-	-	1.1	-	1.2
Total		**0.1**	**412.5**	**402.4**	**475.5**	**13.4**	**-**	**1,303.9**

After credit-risk mitigation

		December 31, 2010						
		NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	-	-	-	-
Small businesses	Unrated	-	-	-	7.2	-	-	7.2
Corporations	Unrated	-	-	-	-	10.8	-	10.8
Banking corporations	Unrated	-	380.1	382.7	-	-	-	762.8
	Rated	-	59.3	462.6	-	-	-	521.9
Other assets	Unrated	0.1	-	-	-	1.1	-	1.2
Total		**0.1**	**439.4**	**845.3**	**7.2**	**11.9**	**-**	**1,303.9**

Credit Risk Mitigation (CRM) (cont.)

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, 2009						
		NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	503.3	-	-	503.3
Small businesses	Unrated	-	-	-	68.9	-	-	68.9
Corporations	Unrated	-	-	-	-	6.9	-	6.9
Banking corporations	Unrated	-	413.3	112.1	-	-	-	525.4
	Rated	-	55.9	-	-	-	-	55.9
Other assets	Unrated	-	-	-	-	0.9	-	0.9
Total		**-**	**469.2**	**112.1**	**572.2**	**7.8**	**-**	**1,161.3**

After credit-risk mitigation

		December 31, 2009						
		NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
Retail to individuals	Unrated	-	-	-	-	-	-	-
Small businesses	Unrated	-	-	-	7.1	-	-	7.1
Corporations	Unrated	-	-	-	-	4.2	-	4.2
Banking corporations	Unrated	-	413.8	131.2	-	-	-	545.0
	Rated	-	82.0	522.1	-	-	-	604.1
Other assets	Unrated	-	-	-	-	0.9	-	0.9
Total		**-**	**495.8**	**653.3**	**7.1**	**5.1**	**-**	**1,161.3**

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	48.8	(48.8)	-	-
	Off balance sheet	Credit facility	382.0	(382.0)	-	-
Small businesses	Balance sheet	Credit	12.4	(5.2)	-	7.2
	Off balance sheet	Credit facility	32.3	(32.3)	-	-
Corporations	Balance sheet	Credit	10.9	(0.1)	-	10.8
	Off balance sheet	Credit facility	1.4	(1.4)	-	-
Banking corporations	Balance sheet	Credit	763.6	-	54.1	817.7
	Balance sheet	Deposits	51.2	-	-	51.2
	Off balance sheet	Credit facility	0.1	-	415.7	415.8
Other assets	Balance sheet	Other assets	1.2	-	-	1.2
Total			**1,303.9**	**(469.8)**	**469.8**	**1,303.9**

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	47.0	(47.0)	-	-
	Off balance sheet	Credit facility	456.3	(456.3)	-	-
Small businesses	Balance sheet	Credit	14.0	(6.9)	-	7.1
	Off balance sheet	Credit facility	54.9	(54.9)	-	-
Corporations	Balance sheet	Credit	4.4	(0.2)	-	4.2
	Off balance sheet	Credit facility	2.5	(2.5)	-	-
Banking corporations	Balance sheet	Credit	525.7	-	54.1	579.8
	Balance sheet	Deposits	55.6	-	-	55.6
	Off balance sheet	Credit facility	*-	-	513.7	513.7
Other assets	Balance sheet	Other assets	0.9	-	-	0.9
Total			**1,161.3**	**(567.8)**	**567.8**	**1,161.3**

* Amount lower than NIS 50 thousand.

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.

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 merchant, 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

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.

Disclosure by Companies Using the Standard Approach

General

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

Strategy and Processes

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

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

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

- **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an internal investment committee headed by the Head of Market Risks; the Chief Risk Controller; and the Audit Committee.
- **Procedures and policies** – The areas of responsibility and authority in the area of risk management assigned to Management, the Board of Directors, the Audit Committee, and specialized functions such as the Risk Manager are formalized in clear, accessible documentation, with the aim of ensuring uniform implementation in the organization.

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

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

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager

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

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.

- Procedures for monitoring and control on matters related to exposure management.

- Conducting a weekly financial meeting to organize activity and reporting, within the internal investment committee.

- Quarterly 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 requirement 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*	*-	0.1

* Specific risk arising from the surplus of assets over liabilities in the foreign-currency-linked segment, weighted by the percentage of the capital requirement (9.0%).

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	5.5	3.8

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.

Prevention of Money Laundering and Terrorism Financing

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

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

Officers responsible for the implementation of the law have been defined at the Company.

The Company 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 a computerized tutorial. In addition, individual training sessions were held for the departments concerned with the prohibition of money laundering and terrorism financing.

The Company's procedures were updated and expanded in order to fully cover all topics in accordance with legal requirements.

Routine reports were submitted to the Israel Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the directives of the Order) and unusual transactions. In addition, monthly reports were submitted to the Bank of Israel.

Significant Accounting Policies

The financial statements of the Company are prepared in accordance with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks, the main points of which are described in Note 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 is the main area in which estimates and evaluations were used, and which accordingly is considered by the Company to be a critical accounting matter:

Provision for doubtful debts – the financial statements include specific provisions for doubtful debts. The specific provisions fairly reflect, according to the assessment by Management, the loss inherent in debts whose collection 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.

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 control of compliance with these limits is carried out routinely.	Low
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's income and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in income.	Low

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

Risk factor		Brief description	Effect
8.	Regulation and legislation	Present or future risk to the Company's income and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, income, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	High
9.	Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Medium
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
12.	Cessation of operation of an international credit-card organization	The cessation of operation of the Visa organization may materially impair the Company's operations and financial results. In addition, collapse or insolvency of the Company and/or of Bank Hapoalim could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

Risk factor	Brief description	Effect
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
14. Dependence on Isracard	The Company is materially dependent on Isracard, which manages and operates credit-card issuance and acquiring activity on behalf of the Company, in accordance with the arrangement between the parties. The Company does not possess systems for the operation of credit-card issuance and acquiring activities. Termination of the contractual engagement with Isracard would require the Company to contract with another entity for the provision of services, or to perform material monetary investments in the acquisition and development of operational systems.	Medium

Disclosure Regarding the Internal Auditor

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

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

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

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

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

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 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 Chairperson of the Board of Directors and the CEO of the Company. The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

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

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

Auditing resources – Approximately 35 auditing days were invested directly at the Company in 2010. In addition, activities received by the Company via outsourcing from its sister company Isracard Ltd. are audited as part of internal auditing at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, based on a risk survey.

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

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

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

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

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

Summary of Internal Audit activity – A summary of audit activities for 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.

10 meetings of the Board of Directors and 10 meetings of the Audit 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 one.

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

Members of the Board

Irit Izakson

Acting Chairperson of the Company as of December 2008.

Also serves as Acting Chairperson of Isracard, Europay, 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., 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; 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.

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

Member of the audit committee of the board of directors of the following companies: Isracard, Europay, and Poalim Express. Member of the IT committee and the credit committee of the board of directors of Isracard.

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 (did not receive a degree due to non-completion of thesis).

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.

Amiel Gurt

Retiree and lawyer in private practice.

Member of the Board of Directors of the Company since July 28, 1981.

Employed as a lawyer at Bank Hapoalim B.M. until December 31, 2005.

Member of the Managing Committee of the Israel - Australia, New Zealand, and Oceania Chamber of Commerce.

Member of the Managing Committee of the Gurt Foundation.

M.Jur., Hebrew University of Jerusalem.

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

Ilan Grinboim

CEO of Eurocom Cellular Communications Ltd. as of 2004.

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

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

Also a member of the board of directors of the following companies: Dash Apax Holdings Ltd., Isracard Ltd., and Europay (Eurocard) Israel 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

Head of the Finance Administration of the City of Haifa.

Member of the Board of Directors of the Company as of March 12, 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.

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, and Poalim Express Ltd.

Also a member of the audit committee and IT committee of the board of directors of Isracard, and a member of the audit committee of the board of directors of Europay and Poalim Express.

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.

Eldad Kahana	Attorney, Head of Central Legal Counsel, Bank Hapoalim B.M. Member of the Board of Directors of the Company as of November 15, 2006. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of Isracard and Europay, and of the audit committees of these companies. 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. CEO of Shiral 10 Ltd. Also a member of the board of directors of the following companies: Isracard, Europay, 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. Chairman of the IT committee of the board of directors of Isracard, and member of the audit committee of the board of directors of Isracard, Europay, and Poalim Express. In the last five years or during part of that period, served as a member of the board of directors of the following companies: Pangaea Israel (T.R.) Ltd., Dafron Ltd., One System Integration Ltd., IDB Holdings Ltd.; however, he no longer serves at these companies. M.Sc., Industry and Management, Technion. B.Sc., Industry and Management, Technion. Courses abroad, mainly at the IBM training center in Brussels, on management, marketing, balance-sheet analysis, and strategic management of companies. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. S. Lachman, he is not a family member of another interested party of the corporation.

Ran Oz

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

Member of the Board of Directors of the Company as of July 26, 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, Isracard, Poalim Capital Markets Investment House 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.

Ronny Shaten

Chairman and member of the boards of directors of various companies.

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.

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

Also a member of the board of directors and chairman of the audit committee of the board of directors of Poalim Express; member of the board of directors of Ginegar Plastic Products Ltd.; chairman of the board of directors of Super Plast Ltd.

In the last five years or during part of that period, served as chairman of the board at A.M.S. Electronics Ltd. and as a member of the board of directors of the following companies: Isracard, Europay, UTI Logistics Israel Ltd., Exel – Multi Purpose Logistics Ltd., Overseas Commerce Ltd., Exel M.P.L. – A.V.B.A. Ltd., and (I.Z.) Queenco Ltd.; however, he no longer serves at these companies.

Studied Business Administration.

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

Senior Members of Management

Dov Kotler

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

Also serves as of February 1, 2009 as CEO of the following credit-card companies: Isracard, Europay, 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, Mr. A. Kushilevitz-Ilan 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.

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.

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. 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 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.

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

As part of the Company's participation in joint costs of Isracard and the Company, the Company also bears the relative cost of the wages of officers.

This cost is charged to the Company as a general amount, and cannot be attributed specifically to individual officers. The payment of wages to the officers is performed by Isracard, which operates the activity of the Company, as noted.

Remuneration of Auditors(1)(2)

	2010	2009**
	In NIS thousands	
For audit activities(3):		
Joint auditors	137	125
For tax services(4):		
Joint auditors	*-	*-
For other services(5):		
Joint auditors	5	-
Total remuneration of auditors	**142**	**125**

* Amount lower than NIS 1 thousand.

** Reclassified.

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

(2) Includes remuneration paid and remuneration accrued.

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

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

(5) Mainly includes routine processes.

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

Tel Aviv, February 28, 2011

Aminit Ltd.

Management's Review

For the Year Ended December 31, 2010

Table of Contents

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	51.2	55.6	39.1	25.9	22.6
Debtors in respect of credit-card activity	835.6	591.0	432.0	215.7	10.7
Securities	-	*-	*-	-	4.3
Computers and equipment	*-	*-	0.1	0.1	-
Other assets	1.3	1.0	1.0	0.9	0.8
Total assets	**888.1**	**647.6**	**472.2**	**242.6**	**38.4**
Liabilities					
Credit from banking corporations	0.8	*-	*-	*-	0.9
Travelers' checks in circulation, net	11.0	12.6	13.5	15.8	18.8
Creditors in respect of credit-card activity	777.4	542.6	406.5	198.7	3.4
Subordinated notes	16.1	3.5	-	-	-
Other liabilities	49.5	65.2	29.6	21.3	8.8
Total liabilities	**854.8**	**623.9**	**449.6**	**235.8**	**31.9**
Shareholders' equity	33.3	23.7	22.6	6.8	6.5
Total liabilities and capital	**888.1**	**647.6**	**472.2**	**242.6**	**38.4**

* Amount lower than NIS 50 thousand.

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	42.6	30.7	**22.3	**9.0	**4.8
Profit from financing activity before provision for doubtful debts	2.9	2.6	1.2	0.3	0.2
Others	0.2	0.1	0.2	-	-
Total income	**45.7**	**33.4**	**23.7**	**9.3**	**5.0**
Expenses					
Provision for doubtful debts	1.0	0.4	0.1	*-	*-
Operating expenses	21.5	18.1	**14.3	**7.5	**3.1
Sales and marketing expenses	7.2	5.6	7.5	5.0	0.7
General and administrative expenses	11.3	9.3	6.4	2.1	0.9
Payments to banks (receipts from banks)	3.2	(1.4)	(5.6)	(5.7)	(0.2)
Total expenses	**44.2**	**32.0**	**22.7**	**8.9**	**4.5**
Operating profit before taxes	1.5	1.4	1.0	0.4	0.5
Provision for taxes on operating profit	0.4	0.3	0.2	0.1	0.2
Net profit	**1.1**	**1.1**	**0.8**	**0.3**	**0.3**
Basic and diluted net profit per common share (in NIS)	**171**	**190**	**312**	**141**	**148**

* Amount lower than NIS 50 thousand.

** Reclassified.

Rates of Income and Expenses

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	693.5	3.1	0.45
Total assets	**693.5**	**3.1**	**0.45**
Liabilities	656.9	(0.5)	(0.08)
Total liabilities	**656.9**	**(0.5)**	**(0.08)**
Interest-rate gap			**0.37**

CPI-Linked Israeli Currency

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	1.8	-	-
Total assets	**1.8**	**-**	**-**
Liabilities	10.2	(0.6)	(5.88)
Total liabilities	**10.2**	**(0.6)**	**(5.88)**

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

(2) Annualized.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	24.7	4.5	18.22
Total assets	**24.7**	**4.5**	**18.22**
Liabilities	21.2	(3.6)	(16.98)
Total liabilities	**21.2**	**(3.6)**	**(16.98)**
Interest-rate gap			**1.24**

Total

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Monetary assets generating financing income[3]	720.0	7.6	1.06
Total assets	**720.0**	**7.6**	**1.06**
Monetary liabilities generating financing expenses	688.3	(4.7)	(0.68)
Total liabilities	**688.3**	**(4.7)**	**(0.68)**
Interest-rate gap			
Profit from financing activity		**2.9**	**0.38**

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

(2) Annualized.

(3) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 50 thousand, was deducted from 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 (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010
	Average balance[1]
	NIS millions
Monetary assets generating financing income	720.0
Other monetary assets	0.2
Total monetary assets	**720.2**
Monetary liabilities generating financing expenses	688.3
Other monetary liabilities	-
Total monetary liabilities	**688.3**
Total surplus of monetary assets over monetary liabilities	31.9
Non-monetary assets	0.7
Non-monetary liabilities	5.5
Total capital means	**27.1**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	USD millions		Percent
Monetary assets in foreign currency generating financing income	6.6	1.2	18.18
Total assets	**6.6**	**1.2**	**18.18**
Monetary liabilities in foreign currency generating financing expenses	5.7	(1.0)	(17.54)
Total liabilities	**5.7**	**(1.0)**	**(17.54)**
Interest-rate gap			**0.64**

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

(2) Annualized.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2009		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	535.7	2.0	0.37
Total assets	**535.7**	**2.0**	**0.37**
Liabilities	509.1	(0.3)	(0.06)
Total liabilities	**509.1**	**(0.3)**	**(0.06)**
Interest-rate gap			**0.31**

CPI-Linked Israeli Currency

	For the year ended December 31, 2009		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	3.4	-	-
Total assets	**3.4**	**-**	**-**
Liabilities	3.3	-	-
Total liabilities	**3.3**	**-**	**-**

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

(2) Annualized.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2009		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	15.9	(1.8)	(11.32)
Total assets	**15.9**	**(1.8)**	**(11.32)**
Liabilities	20.4	2.7	13.24
Total liabilities	**20.4**	**2.7**	**13.24**
Interest-rate gap			**1.92**

Total

	For the year ended December 31, 2009		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Monetary assets generating financing income	555.0	0.2	0.04
Total assets	**555.0**	**0.2**	**0.04**
Monetary liabilities generating financing expenses	532.8	2.4	0.45
Total liabilities	**532.8**	**2.4**	**0.45**
Interest-rate gap			**0.49**
Profit from financing activity		**2.6**	

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

(2) Annualized.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009
	Average balance[1]
	NIS millions
Monetary assets generating financing income	555.0
Other monetary assets	0.3
Total monetary assets	**555.3**
Monetary liabilities generating financing expenses	532.8
Other monetary liabilities	-
Total monetary liabilities	**532.8**
Total surplus of monetary assets over monetary liabilities	22.5
Non-monetary assets	0.8
Non-monetary liabilities	0.1
Total capital means	**23.2**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2009		
	Average balance[(1)]	Financing income (expenses)	Rate of income (expenses)[(2)]
	USD millions		Percent
Monetary assets in foreign currency generating financing income	4.0	(0.5)	(12.50)
Total assets	**4.0**	**(0.5)**	**(12.50)**
Monetary liabilities in foreign currency generating financing expenses	5.2	0.7	13.46
Total liabilities	**5.2**	**0.7**	**13.46**
Interest-rate gap			**0.96**

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

(2) Annualized.

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

Exposure of the Company to Changes in Interest Rates as of December 31, 2010

Addendum 4

Reported amounts

	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
	NIS millions				
Unlinked Israeli currency					
Financial assets:					
Financial assets	545.1	163.8	134.7	16.3	-
Total fair value	**545.1**	**163.8**	**134.7**	**16.3**	**-**
Financial liabilities:					
Financial liabilities	536.2	147.1	124.2	13.9	-
Total fair value	**536.2**	**147.1**	**124.2**	**13.9**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	8.9	16.7	10.5	2.4	-
Cumulative exposure in the segment	8.9	25.6	36.1	38.5	38.5
Linked Israeli currency					
Financial assets:					
Financial assets	0.8	0.8	0.7	-	-
Total fair value	**0.8**	**0.8**	**0.7**	**-**	**-**
Financial liabilities:					
Financial liabilities	0.3	0.2	0.2	-	-
Total fair value	**0.3**	**0.2**	**0.2**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	0.5	0.6	0.5	-	-
Cumulative exposure in the segment	0.5	1.1	1.6	1.6	1.6

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	0.2	860.1	2.56	0.12
	-	**0.2**	**860.1**	**2.56**	**0.12**
	-	0.5	821.9	2.51	0.13
	-	**0.5**	**821.9**	**2.51**	**0.13**
	-	(0.3)	38.2		
	38.5	38.2			
	-	-	2.3	0.04	0.19
	-	**-**	**2.3**	**0.04**	**0.19**
	-	-	0.7	0.04	0.20
	-	**-**	**0.7**	**0.04**	**0.20**
	-	-	1.6		
	1.6	1.6			

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

Addendum 4 (cont.)

Reported amounts

	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
	NIS millions				
Foreign currency					
Financial assets:					
Financial assets	11.3	0.3	10.5	-	-
Total fair value	**11.3**	**0.3**	**10.5**	**-**	**-**
Financial liabilities:					
Financial liabilities	20.7	1.6	0.1	-	-
Total fair value	**20.7**	**1.6**	**0.1**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(9.4)	(1.3)	10.4	-	-
Cumulative exposure in the segment	(9.4)	(10.7)	(0.3)	(0.3)	(0.3)
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	557.2	164.9	145.9	16.3	-
Total fair value	**557.2**	**164.9**	**145.9**	**16.3**	**-**
Financial liabilities:					
Financial liabilities	557.2	148.9	124.5	13.9	-
Total fair value	**557.2**	**148.9**	**124.5**	**13.9**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	-	16.0	21.4	2.4	-
Cumulative exposure in the segment	-	16.0	37.4	39.8	39.8

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	22.1	0.55	0.29
	-	**-**	**22.1**	**0.55**	**0.29**
	-	0.2	22.6	0.37	0.07
	-	**0.2**	**22.6**	**0.37**	**0.07**
	-	(0.2)	(0.5)		
	(0.3)	(0.5)			
	-	0.2	884.5	2.44	0.13
	-	**0.2**	**884.5**	**2.44**	**0.13**
	-	0.7	845.2	2.48	0.13
	-	**0.7**	**845.2**	**2.48**	**0.13**
	-	(0.5)	39.3		
	39.8	39.3			

Exposure of the Company to Changes in Interest Rates as of December 31, 2009

Addendum 4 (cont.)

Reported amounts

	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
	NIS millions				
Unlinked Israeli currency					
Financial assets:					
Financial assets	387.4	119.9	101.4	8.1	2.7
Total fair value	**387.4**	**119.9**	**101.4**	**8.1**	**2.7**
Financial liabilities:					
Financial liabilities	387.5	101.4	94.5	7.6	2.7
Total fair value	**387.5**	**101.4**	**94.5**	**7.6**	**2.7**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(0.1)	18.5	6.9	0.5	-
Cumulative exposure in the segment	(0.1)	18.4	25.3	25.8	25.8
Linked Israeli currency					
Financial assets:					
Financial assets	2.6	0.8	0.6	0.1	-
Total fair value	**2.6**	**0.8**	**0.6**	**0.1**	**-**
Financial liabilities:					
Financial liabilities	2.3	0.6	0.7	0.6	0.3
Total fair value	**2.3**	**0.6**	**0.7**	**0.6**	**0.3**
Financial instruments, net					
Exposure to changes in interest rates in the segment	0.3	0.2	(0.1)	(0.5)	(0.3)
Cumulative exposure in the segment	0.3	0.5	0.4	(0.1)	(0.4)

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	0.7	620.2	1.32	0.14
	-	**0.7**	**620.2**	**1.32**	**0.14**
	-	1.0	594.7	1.30	0.14
	-	**1.0**	**594.7**	**1.30**	**0.14**
	-	(0.3)	25.5		
	25.8				
	-	-	4.1	1.26	0.13
	-	**-**	**4.1**	**1.26**	**0.13**
	3.3	-	7.8	2.38	4.36
	3.3	**-**	**7.8**	**2.38**	**4.36**
	(3.3)	-	(3.7)		
	(3.7)				

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

Addendum 4 (cont.)

Reported amounts

	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
	NIS millions				
Foreign currency					
Financial assets:					
Financial assets	9.3	-	12.7	-	-
Total fair value	**9.3**	**-**	**12.7**	**-**	**-**
Financial liabilities:					
Financial liabilities	19.4	0.5	-	-	-
Total fair value	**19.4**	**0.5**	**-**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(10.1)	(0.5)	12.7	-	-
Cumulative exposure in the segment	(10.1)	(10.6)	2.1	2.1	2.1
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	399.3	120.7	114.7	8.2	2.7
Total fair value	**399.3**	**120.7**	**114.7**	**8.2**	**2.7**
Financial liabilities:					
Financial liabilities	409.2	102.5	95.2	8.2	3.0
Total fair value	**409.2**	**102.5**	**95.2**	**8.2**	**3.0**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(9.9)	18.2	19.5	-	(0.3)
Cumulative exposure in the segment	(9.9)	8.3	27.8	27.8	27.5

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	22.0	1.27	0.40
	-	**-**	**22.0**	**1.27**	**0.40**
	0.9	-	20.8	1.28	0.02
	0.9	**-**	**20.8**	**1.28**	**0.02**
	(0.9)	-	1.2		
	1.2				
	-	0.7	646.3	1.32	0.15
	-	**0.7**	**646.3**	**1.32**	**0.15**
	4.2	1.0	623.3	1.52	0.18
	4.2	**1.0**	**623.3**	**1.52**	**0.18**
	(4.2)	(0.3)	23.0		
	23.3				

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	51.2	39.5	65.4	66.9
Debtors in respect of credit-card activity	835.6	719.2	656.1	636.2
Securities	-	-	-	-
Computers and equipment	*-	*-	*-	*-
Other assets	1.3	0.8	0.8	0.9
Total assets	**888.1**	**759.5**	**722.3**	**704.0**
Liabilities				
Credit from banking corporations	0.8	*-	*-	*-
Travelers' checks in circulation, net	11.0	11.6	12.6	12.3
Creditors in respect of credit-card activity	777.4	656.1	595.9	579.6
Subordinated notes	16.1	16.1	15.9	15.5
Other liabilities	49.5	42.6	73.5	72.5
Total liabilities	**854.8**	**726.4**	**697.9**	**679.9**
Shareholders' equity	33.3	33.1	24.4	24.1
Total liabilities and capital	**888.1**	**759.5**	**722.3**	**704.0**

* Amount lower than NIS 50 thousand.

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	55.6	33.7	34.4	44.3
Debtors in respect of credit-card activity	591.0	559.5	511.7	476.2
Securities	*-	7.9	14.0	*-
Computers and equipment	*-	0.1	0.1	0.1
Other assets	1.0	0.8	0.6	3.5
Total assets	**647.6**	**602.0**	**560.8**	**524.1**
Liabilities				
Credit from banking corporations	*-	*-	0.5	0.4
Travelers' checks in circulation, net	12.6	12.8	13.5	14.6
Creditors in respect of credit-card activity	542.6	510.3	477.2	448.2
Subordinated notes	3.5	-	-	-
Other liabilities	65.2	55.5	46.3	38.1
Total liabilities	**623.9**	**578.6**	**537.5**	**501.3**
Shareholders' equity	23.7	23.4	23.3	22.8
Total liabilities and capital	**647.6**	**602.0**	**560.8**	**524.1**

* Amount lower than NIS 50 thousand.

Quarterly 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	12.7	11.8	9.4	**8.7
Profit from financing activity before provision for doubtful debts	0.5	0.9	0.7	0.8
Others	*-	*-	*-	0.2
Total income	**13.2**	**12.7**	**10.1**	**9.7**
Expenses				
Provision for doubtful debts	0.9	-	0.1	*-
Operating expenses	5.9	5.4	5.0	**5.2
Sales and marketing expenses	2.9	1.6	1.4	1.3
General and administrative expenses	3.3	2.9	2.6	2.5
Net receipts from banks	(0.1)	2.5	0.6	0.2
Total expenses	**12.9**	**12.4**	**9.7**	**9.2**
Operating profit before taxes	0.3	0.3	0.4	0.5
Provision for taxes on operating profit	0.1	0.1	0.1	0.1
Net profit	**0.2**	**0.2**	**0.3**	**0.4**
Basic and diluted net profit per common share (in NIS)	**25**	**37**	**50**	**69**

* Amount lower than NIS 50 thousand.

** Reclassified.

Quarterly 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	8.0	8.5	7.4	**6.8
Profit from financing activity before provision for doubtful debts	0.8	0.8	0.7	0.3
Others	0.1	-	-	-
Total income	**8.9**	**9.3**	**8.1**	**7.1**
Expenses				
Provision for doubtful debts	*-	-	(*-)	**0.4
Operating expenses	4.7	4.4	4.6	4.4
Sales and marketing expenses	1.7	1.6	1.2	1.1
General and administrative expenses	2.5	2.6	2.3	1.9
Net receipts from banks	(0.4)	0.4	(0.4)	(1.0)
Total expenses	**8.5**	**9.0**	**7.7**	**6.8**
Operating profit before taxes	0.4	0.3	0.4	0.3
Provision for taxes on operating profit	0.1	*-	0.1	0.1
Net profit	**0.3**	**0.3**	**0.3**	**0.2**
Basic and diluted net profit per common share (in NIS)	**51**	**49**	**50**	**33**

* Amount lower than NIS 50 thousand.

** Reclassified.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Aminit Ltd. (hereinafter: the “**Company**”) for 2010 (hereinafter: the “**Report**”).

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

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

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

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

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

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

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

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

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

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

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

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

Dov Kotler

Tel Aviv, February 28, 2011

Chief Executive Officer

Certification

I, Sigal Barmac, hereby declare that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors and the Management of Aminit 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 we determine 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 128. 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

Aminit Ltd.

Financial Statements

For the year ended December 31, 2010

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BDO ZIV HAFT

KPMG

Somekh Chaikin

Auditors' Report to the Shareholders of Aminit 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 Aminit Ltd. (hereinafter – "**the Company**") as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning audits of internal control over 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 the directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are made only in accordance with authorizations of the board of directors and management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets (including removal of assets from its possession) that could have a material effect on the financial statements.

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

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

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

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

Tel Aviv, February 28, 2011

Somekh Chaikin

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

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

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

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

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

Ziv Haft

Certified Public Accountants (Isr.)

Somekh Chaikin

Certified Public Accountants (Isr.)

Tel-Aviv, February 28, 2011

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2010	2009
Assets			
Cash on hand and deposits with banks	3	51.2	55.6
Debtors in respect of credit-card activity	4, 5, 6	835.6	591.0
Securities	7	-	*-
Computers and equipment	8	*-	*-
Other assets	9	1.3	1.0
Total assets		**888.1**	**647.6**
Liabilities			
Credit from banking corporations	10	0.8	*-
Travelers' checks in circulation, net	11	11.0	12.6
Creditors in respect of credit-card activity	12	777.4	542.6
Subordinated notes	13	16.1	3.5
Other liabilities	14	49.5	65.2
Total liabilities		**854.8**	**623.9**
Contingent liabilities and special agreements	18		
Shareholders' equity	15	33.3	23.7
Total liabilities and capital		**888.1**	**647.6**

* Amount lower than NIS 50 thousand.

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

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	For the year ended December 31		
		2010	2009	2008
Income				
From credit-card transactions	21	42.6	30.7	*22.3
Profit from financing activity before provision for doubtful debts	22	2.9	2.6	1.2
Others		0.2	0.1	0.2
Total income		**45.7**	**33.4**	**23.7**
Expenses				
Provision for doubtful debts	5	1.0	0.4	0.1
Operating expenses	23	21.5	18.1	*14.3
Sales and marketing expenses	24	7.2	5.6	7.5
General and administrative expenses	25	11.3	9.3	6.4
Payments to banks (net receipts from banks)	18H	3.2	(1.4)	(5.6)
Total expenses		**44.2**	**32.0**	**22.7**
Operating profit before taxes		**1.5**	**1.4**	**1.0**
Provision for taxes on operating profit	26	0.4	0.3	0.2
Net profit		**1.1**	**1.1**	**0.8**
Basic and diluted net profit per common share (in NIS)		**171**	**190**	**312**
Number of common shares used in calculation		6,697	6,000	2,481

* Reclassified.

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	Share capital	Premium on shares	Adjustments in respect of presentation of securities available for sale at fair value	Total share capital and capital reserves	Retained earnings	Total shareholders' equity
Balance as of Dec. 31, 2007	**0.8**	**-**	**-**	**0.8**	**6.0**	**6.8**
Net profit	-	-	-	-	0.8	0.8
Share issuance	*-	15.0	-	15.0	-	15.0
Balance as of Dec. 31, 2008	**0.8**	**15.0**	**-**	**15.8**	**6.8**	**22.6**
Net profit	-	-	-	-	1.1	1.1
Share issuance	-	-	-	-	-	-
Balance as of Dec. 31, 2009	**0.8**	**15.0**	**-**	**15.8**	**7.9**	**23.7**
Net profit	-	-	-	-	1.1	1.1
Share issuance	*-	8.5	-	8.5	-	8.5
Balance as of Dec. 31, 2010	**0.8**	**23.5**	**-**	**24.3**	**9.0**	**33.3**

* Amount lower than NIS 50 thousand.

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

Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Cash flows generating by operating activity			
Net profit for the year	**1.1**	**1.1**	**0.8**
Adjustments required to present operating cash flows:			
Revaluation of deposits from banking corporations	0.8	0.1	0.2
Revaluation of subordinated notes	0.6	-	-
Depreciation	**-	**-	**-
Provision for doubtful debts	(0.1)	0.3	-
Profit from realization and adjustment of securities available for sale	(0.2)	(0.7)	-
Deferred taxes, net	0.1	(0.1)	**-
(Increase) decrease in other assets	(0.4)	0.1	(0.1)
Increase (decrease) in other liabilities	(15.7)	35.6	8.3
Net cash generated by operating activity	**(13.8)**	**36.4**	**9.2**
Cash flows for activity in assets			
Deposits deposited with banks*	(12.0)	(13.9)	(17.3)
Withdrawal of deposits from banks*	12.9	14.8	19.6
Purchase of securities available for sale	-	(21.6)	-
Proceeds of realization of securities available for sale	0.2	22.2	-
Increase in credit to merchants, net	(3.8)	(6.9)	-
Increase in debtors in respect of credit-card activity, net	(240.7)	(152.4)	(216.4)
Net cash for activity in assets	**(243.4)**	**(157.8)**	**(214.1)**
Cash flows generated by activity in liabilities			
Short-term credit from banking corporations, net	0.8	**-	**(-)
Decrease in travelers' checks in circulation	(1.6)	(0.9)	(2.2)
Increase in creditors in respect of credit-card transactions, net	234.8	136.1	207.8
Increase in subordinated notes, net	12.0	3.5	-
Issuance of share capital	8.5	-	15.0
Net cash inflow generated by activity in liabilities	**254.5**	**138.7**	**220.6**
Increase in cash and cash equivalents	**(2.7)**	**17.3**	**15.7**
Balance of cash and cash equivalents at beginning of year	**42.8**	**25.5**	**9.8**
Balance of cash and cash equivalents at end of year	**40.1**	**42.8**	**25.5**

* For an original period of more than 3 months.

** Amount lower than NIS 50 thousand.

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

Note 1 – Reporting Rules and Significant Accounting Policies

A. General

1. Aminit Ltd. ("**the Company**") was established in 1979 and is under the full ownership of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

2. The Company issues and acquires Visa credit cards. Isracard Ltd. ("**Isracard**"), a sister company, operates the Company's credit-card system on behalf of the Company. An agreement is in place between the Company and Isracard for that purpose, regularizing the manner of account settlement between the parties (see Note 18G).

3. The financial statements were prepared in accordance with Israeli GAAP and with the directives and guidelines of the Supervisor of Banks with regard to financial reporting by credit-card companies.

B. Definitions

In these financial statements:

1. The Company – Aminit Ltd.

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

3. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.

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

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

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

7. USD – United States dollar.

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

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

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

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

B. Definitions (cont.)

11. Nominal financial reporting – Financial reporting based on reported amounts.
12. Functional currency – The currency of the main economic environment in which the company operates; usually, the currency of the environment in which the corporation derives and expends most of its cash.
13. Presentation currency – The currency in which the financial statements are presented.

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 28 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.

D. Functional Currency and Presentation Currency

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

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

E. Reporting Principles

1. Balance sheets

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

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

2. Statements of profit and loss

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

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

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 is 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.

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

F. Linkage and Foreign Currency (cont.)

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

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

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

Effect of Changes in Foreign Currency Exchange Rates

The Company implements Accounting Standard 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 and 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.

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

H. Statement of Cash Flows

The statement of cash flows is presented with a classification into cash flows generated by operating activity, generated by activity in assets, and generated by activity in liabilities and capital. Cash flows generated by activity in assets and generated by 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.

I. 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. 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.

J. 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 the international organization, 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 the international organization.

K. 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 to realize the asset and settle the liability simultaneously.

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

L. 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.

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

M. 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.

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.

N. Computers 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.

Note 1 – Significant Accounting Policies (cont.)

N. Buildings and Equipment (cont.)

4. Annual depreciation rates:

	%
Computers and peripheral equipment	20-33
Software costs	25
Furniture and office equipment	6-10

5. Costs of the development of software for internal use are handled in accordance with Standard 30, “Intangible Assets.” 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.

O. Impairment of Non-Financial Assets

The Company applies Accounting Standard No. 15, “Impairment of Assets” (hereinafter: “**the Standard**”). The Standard sets forth procedures which the Company must implement in order to ensure that its assets in the balance sheet (to which the Standard applies) are not stated in an amount exceeding their recoverable amount, which is the higher of the net sale value and the use value (the current value of estimated future cash flows expected to derive from the use and disposal of the asset).

The Standard applies to all assets in the balance sheet, with the exception of tax assets and monetary assets. When the value of an asset in the balance sheet exceeds its recoverable amount, the Company recognizes a loss from impairment in the amount of the difference between the book value and the recoverable amount of the asset. Loss recognized in the aforesaid manner shall be cancelled only if changes have occurred in the estimates used to establish the recoverable amount of the asset since the date of recognition of the last loss from impairment.

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

P. Taxes on Income

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

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

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

Q. Share-Based Payments

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.)

R. 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.

S. 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.

	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	84.8	61.8	72.2	53.8
Effect of the change	54.1	39.5	54.1	39.5
Total income/expenses allocated to the statement of profit and loss after the change	30.7	22.3	18.1	14.3

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

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

S. Revenue Recognition (cont.)

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 I above.

T. 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.

U. 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 27.

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

V. 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.

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.

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

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

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.

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.

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

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

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

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

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

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

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

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

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

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

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

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;

(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.

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

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

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.

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.

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

The initial implementation of the standard is expected to have no effect, because the Company does not have share-based payment transactions.

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

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

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

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

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

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

A circular of the Supervisor of Banks on the subject of the measurement and disclosure of impaired debts, credit risk, and provision for credit losses was issued in December 2007. The circular is based, among other matters, on US accounting standards (ASC 310) and on the relevant regulatory directives of bank supervision agencies and the Securities and Exchange Commission in the United States. The guiding principles of the circular represent a substantial change from the current directives on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts. The Company will implement the directives 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 1.2 million. However, deferred taxes will increase by NIS 0.1 million, so that the balance of retained earnings will decrease by NIS 1.1 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, if the directives had been implemented as of that date. For details regarding the manner of implementation and the expected effect of the new directives, see Note 2 below.

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.

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

- 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.

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

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

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.

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

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

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:

- 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.

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

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

- 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 reporting periods beginning from January 1, 2011 forward.

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

W. 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), 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 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	9.0
Cumulative effect net of tax of initial implementation of the new directives as of December 31, 2010	(1.1)
Of which:	
Change in provision for credit losses	(1.2)
Related tax effect	0.1
Balance of retained earnings as of December 31, 2010 under the new directives	7.9

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	835.9
Effect of initial implementation as of December 31, 2010 of the new directives:	
Net accounting write-offs recognized as of December 31, 2010*	(0.4)
Balance of credit to the public (before deduction of credit loss provisions) as of December 31, 2010, under the new directives	835.5

* 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.)

A. Effect of the Initial Implementation of the New Directives on the Principal 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	0.3	-	0.3
Effect of initial implementation of the new directives:			
Net accounting write-offs recognized as of December 31, 2010**	-	(0.4)	(0.4)
Other changes in the provision for credit losses as of December 31, 2010 (allocated to shareholders' equity)	(0.3)	1.5	1.2
Balance of provision for credit losses as of December 31, 2010, according to the new directives	-	1.1	1.1

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

** 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.)

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

Reported amounts

In NIS millions

Audited

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	0.1
Effect of initial implementation as of December 31, 2010 of the new directives	0.1
Balance of other assets in respect of net deferred taxes receivable as of December 31, 2010 according to the new directives	0.2

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*	0.9	***-	0.9
Credit to the public examined on a group basis**	834.6	0.8	833.8
Total credit to the public	835.5	0.8	834.7

* 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.

*** Amount lower than NIS 50 thousand.

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

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	-	-	-
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**	0.9	*-	0.9
Total unimpaired credit to the public**	0.9	*-	0.9
Total individually examined credit to the public	**0.9**	*-	**0.9**

Additional information regarding individually examined impaired credit to the public			

* Amount lower than NIS 50 thousand.

** Credit examined individually and found to be unimpaired. The provision for credit losses in respect of this credit was calculated on a group basis.

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	**-	**-	**-
Unimpaired credit to the public, 30 to 89 days in arrears	-	-	-
Unimpaired credit to the public	834.6	0.8	833.8
Total	**834.6**	**0.8**	**833.8**

* 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.

** Amount lower than NIS 50 thousand.

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

	Provision for credit losses		
	Individual	Group*	
		Other	Total
Composition of balance of provision as of December 31, 2010:			
In respect of credit to the public	-	0.8	0.8
In respect of debts other than credit to the public	-	0.1	0.1
In respect of off-balance-sheet items (included in the “other liabilities” item)	-	0.2	0.2

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

Note 3 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2010	2009
Cash on hand	39.9	42.4
Deposits with banks for an original term of up to 3 months	0.2	0.4
Total cash and cash equivalents	**40.1**	**42.8**
Other deposits with banks	11.1	12.8
Total	**51.2**	**55.6**

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

	Average annual interest rate 2010		December 31	
			2010	2009
	For daily balance	For transactions in the last month	In NIS millions	
	%	%		
Debtors in respect of credit cards [1] [2]	-	-	54.4	54.1
Credit to merchants [3]	5.31	5.64	14.5	10.7
Total			68.9	64.8
Less: Provision for doubtful debts			(0.3)	(0.4)
Total debtors and credit to merchants			68.6	64.4
Companies and international credit-card organization			766.6	525.8
Income receivable			0.1	0.1
Others			0.3	0.7
Total debtors in respect of credit-card activity			**835.6**	**591.0**

(1) Under the responsibility of banks.

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

(3) Includes advance payments to merchants in the amount of NIS 14.0 million as of December 31, 2010 (Dec. 31, 2009: NIS 9.7 million).

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

Reported amounts

In NIS millions

	Specific provision**
Balance of provision as of December 31, 2007	*-
Net provisions for 2008	0.1
Balance of provision as of December 31, 2008	**0.1**
Net provisions for 2009	0.3
Balance of provision as of December 31, 2009	**0.4**
Net provisions for 2010	(0.1)
Balance of provision as of December 31, 2010	**0.3**

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.

(1) Bad debts in the amount of NIS 1.1 million (2009: NIS 0.1 million, 2008: amount lower than NIS 50 thousand) were included in the statement of profit and loss.

* Amount lower than NIS 50 thousand.

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

Note 6 – Debtors in Respect of Credit-Card Activity 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(1)	Of which: under responsibility of banks
	NIS millions		
Credit ceiling (in NIS thousands)			
Borrower balances up to 5	18,252	18.5	18.5
Borrower balances over 5 and up to 10	2,560	17.4	17.4
Borrower balances over 10 and up to 15	823	9.6	9.6
Borrower balances over 15 and up to 20	323	5.4	5.4
Borrower balances over 20 and up to 30	224	5.2	5.2
Borrower balances over 30 and up to 40	70	2.3	2.3
Borrower balances over 40 and up to 80	68	3.6	3.6
Borrower balances over 80 and up to 150	24	2.4	2.4
Borrower balances over 150 and up to 300	3	0.7	0.7
Borrower balances over 300 and up to 600	-	-	-
Borrower balances over 600 and up to 1,200	2	1.6	1.6
Borrower balances over 1,200 and up to 2,000	1	1.9	1.9
Borrower balances over 2,000 and up to 4,000	1	3.4	3.4
Borrower balances over 200,000 and up to 400,000	2	763.2	-
Total	**22,353**	**835.2**	**72.0**
Income receivable and other debtors	-	0.4	-
Total	**22,353**	**835.6**	**72.0**

(1) After deducting specific provisions for doubtful debts.

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

Note 6 – Debtors in Respect of Credit-Card Activity 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[(1)]	Of which: under responsibility of banks
	NIS millions		
Credit ceiling (in NIS thousands)			
Borrower balances up to 5	12,337	20.2	19.5
Borrower balances over 5 and up to 10	2,412	17.0	16.0
Borrower balances over 10 and up to 15	705	8.6	7.7
Borrower balances over 15 and up to 20	255	4.3	3.7
Borrower balances over 20 and up to 30	231	5.6	4.0
Borrower balances over 30 and up to 40	59	2.0	1.5
Borrower balances over 40 and up to 80	61	3.3	1.7
Borrower balances over 80 and up to 150	8	0.8	-
Borrower balances over 150 and up to 300	4	1.0	-
Borrower balances over 300 and up to 600	2	1.0	-
Borrower balances over 600 and up to 1,200	2	1.5	-
Borrower balances over 200,000 and up to 400,000	2	524.9	-
Total	**16,078**	**590.2**	**54.1**
Income receivable and other debtors	-	0.8	-
Total	**16,078**	**591.0**	**54.1**

(1) After deducting specific provisions for doubtful debts.

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

Note 7 – Securities

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Composition:		
Visa International shares	-	*-
Total	-	*-

* Amount lower than NIS 50 thousand.

In October 2007, Visa Inc. decided to carry out a structural change in which the Visa International Association, Visa U.S.A., and Visa Canada became its subsidiaries. As part of this structural change, an initial allocation of shares to members of the organization was performed, in which 1,956 shares of several types were allocated to Aminit, comprising approximately 0.0002% of all shares of the organization at that time. The shares were allocated to Aminit based on its membership in the organization as an issuer of Visa travelers' checks, starting in March 1982. The shares are non-transferable, except in certain cases established in the rules of the organization.

Visa Inc. issued Class A shares to the public on the stock market in the United States in March 2008. As part of this process, on March 17, 2008, the shares allocated to the Company as described above were converted by Visa Inc. into 2,040 Common Stock (Series I) C shares. On March 28, 2008, Visa Inc. redeemed 1,147 of the aforesaid Class C shares from the Company for a consideration of USD 49 thousand (approximately NIS 173 thousand). The Company has 893 of the aforesaid Class C shares remaining. Class C shares are not issued to the public and do not confer voting rights, except on certain matters. Furthermore, the shares are non-transferable for three years, with the exception of certain cases established in the rules of the organization.

Visa Inc. decided to allow members of the organization who held the aforesaid shares and who gave notice of their wish to exercise this right during the third quarter of 2009 to release up to 30% of the shares under their ownership from the blockage and to sell these shares at any time, after converting them to Class A shares, at a ratio of 1 to 1. The Company exercised its right to remove the block and sell the shares. On October 22, 2009, the Company sold 267 shares for a consideration of USD 20,008.77.

Note 8 – Computers and Equipment

Reported amounts

In NIS millions

	Computers and peripheral equipment
Cost:	
As of December 31, 2009	0.1
Additions	-
As of December 31, 2010	**0.1**
Accrued depreciation:	
As of January 1, 2010	0.1
Additions	-
As of December 31, 2010	**0.1**
Depreciated balance as of December 31, 2010	***-**
Depreciated balance as of December 31, 2009	***-**
Average weighted depreciation rate in 2010	25.0%
Average weighted depreciation rate in 2009	25.0%

* Amount lower than NIS 50 thousand.

Note 9 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Deferred taxes receivable, net (see Note 26)	**0.1**	**0.2**
Surplus of advance income-tax payments over current provisions	0.1	*-
Other debtors and debit balances:		
Prepaid expenses	1.0	0.6
Related companies	-	*-
Other debtors	0.1	0.2
Total other debtors and debit balances	**1.2**	**0.8**
Total other assets	**1.3**	**1.0**

* Amount lower than NIS 50 thousand.

Note 10 – Credit from Banking Corporations

	2010		December 31	
	Average annual interest rate		2010	2009
	For daily balance	For transactions in the last month	Reported amounts	
	%	%	NIS millions	
Credit in current drawing accounts	1.22	2.86	0.8	*-

* Amount lower than NIS 50 thousand.

Note 11 – Travelers' Checks in Circulation, Net

Reported amounts

In NIS millions

A. Composition:

	December 31	
	2010	**2009**
Travelers' checks in USD	10.6	12.2
Travelers' checks in GBP	0.1	0.1
Travelers' checks in EUR	0.3	0.3
Total	**11.0**	**12.6**

B. The amount constitutes the net balance of travelers' checks not yet presented for redemption.

C. The Company has contingent liabilities in foreign currency related to the loss of travelers' checks in the amount of NIS 6.1 million (December 31, 2009: NIS 6.5 million). The Company included an appropriate provision in its financial statements for the aforesaid lost travelers' checks.

Note 12 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2010	2009
Merchants [1]	728.2	541.9
Liabilities in respect of deposits	0.2	0.1
Credit-card companies	48.4	-
Prepaid income	0.3	0.2
Others	0.3	0.4
Total creditors in respect of credit-card activity	**777.4**	**542.6**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 83.4 million as of December 31, 2010 (Dec. 31, 2009: NIS 64.9 million).

Note 13 – Subordinated Notes

Reported amounts

In NIS millions

A. Composition:

	Average duration(1)	Internal rate of return(2)	December 31	
	%	%	2010	2009
	2010			
In Israeli currency				
CPI-linked	-	3.2	-	3.5
Unlinked	-	3.2	16.1	-

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

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

B. Additional information regarding subordinated notes:

Subordinated notes in the amount of NIS 3.5 million were issued on December 31, 2009. The notes are linked to the consumer price index and bear annual interest of 4%. The subordinated notes serve as secondary capital for the purpose of complying with the minimum capital ratio. In addition, the Company can issue any subordinated note, until December 31, 2012, up to a total amount of NIS 24,000,000.

Pursuant to a resolution of the Board of Directors of the Company, the linkage terms of all of the subordinated notes were changed, from CPI-linked bearing a fixed rate of interest, to floating interest rates only.

In March 2010, additional subordinated notes in the amount of NIS 12 million were issued.

Note 14 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	0.1	0.3
Suppliers of services and equipment	1.2	0.3
Expenses payable	6.4	4.4
Isracard Ltd. (a related party)	40.8	59.8
Institutions	0.1	0.1
Others	0.9	0.3
Total other liabilities	**49.5**	**65.2**

Note 15A – Shareholders' Equity

Composition:

	Registered	**Issued and paid-up**
	December 31, 2010	
	In NIS	
Common shares of par value NIS 1 each	15,002,000	8,090

	Registered	**Issued and paid-up**
	December 31, 2009	
	In NIS	
Common shares of par value NIS 1 each	15,002,000	6,000

Note 15B – Capital Adequacy According to the Directives of the Supervisor of Banks[(1)]

Reported amounts

In NIS millions

A. Capital Adequacy According to the Directives of the Supervisor of Banks

	December 31, 2010	December 31, 2009
1. Capital for the calculation of the capital ratio		
Core capital	33.3	23.7
Tier I capital, after deductions*	33.3	23.7
Tier II capital, after deductions**	16.1	3.5
Total overall capital	**49.4**	**27.2**

* Subordinated notes in the amount of NIS 12 million were issued to Bank Hapoalim (the Parent Company) in March 2010.

** Subordinated notes included in lower Tier II capital shall not exceed 50% of the Tier I capital not allocated to market risks (inasmuch as the Company holds Tier III capital), after the required deductions from Tier I capital only.

2. Weighted balances of risk-adjusted assets	December 31, 2010		December 31, 2009	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Credit risk	340.8	30.7	205.1	18.5
Market risks – foreign currency exchange rate risk	0.4	*-	1.4	0.1
Operational risk	61.6	5.5	42.6	3.8
Total weighted balances of risk-adjusted assets	**402.8**	**36.2**	**249.1**	**22.4**

* Amount lower than NIS 50 thousand.

Note 15B – 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	8.3	9.5
Ratio of Tier I capital to risk-adjusted assets	8.3	9.5
Ratio of overall capital to risk-adjusted assets	12.3	10.9
Minimum overall capital ratio required by the Supervisor of Banks	9.0	9.0

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

B. Capital Components for the Calculation of the Capital Ratio

	December 31, 2010	December 31, 2009
1. Tier I capital		
Shareholders' equity	33.3	23.7
Total Tier I capital	**33.3**	**23.7**
2. Tier II capital		
Lower Tier II capital		
Subordinated notes	16.1	3.5
Total Tier II capital	**16.1**	**3.5**

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

Note 16 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2010					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	30.3	-	18.4	2.5	-	51.2
Debtors in respect of credit-card activity	832.2	2.3	1.3	(0.2)	-	835.6
Securities	-	-	-	-	-	-
Computers and equipment	-	-	-	-	-	-
Other assets	0.3	-	-	-	1.0	1.3
Total assets	**862.8**	**2.3**	**19.7**	**2.3**	**1.0**	**888.1**
Liabilities						
Credit from banking corporations	-	-	-	0.8	-	0.8
Travelers' checks in circulation	-	-	10.6	0.4	-	11.0
Creditors in respect of credit-card activity	760.2	0.7	9.0	0.7	6.8	777.4
Subordinated note	16.1	-	-	-	-	16.1
Other liabilities	48.5	-	0.5	0.5	-	49.5
Total liabilities	**824.8**	**0.7**	**20.1**	**2.4**	**6.8**	**854.8**
Difference	**38.0**	**1.6**	**(0.4)**	**(0.1)**	**(5.8)**	**33.3**

* Including foreign-currency linked.

Note 16 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	34.6	-	19.7	1.3	-	55.6
Debtors in respect of credit-card activity	586.1	4.0	0.9	-	-	591.0
Securities	-	-	**-	-	-	**-
Computers and equipment	-	-	-	-	**-	**-
Other assets	0.4	-	-	-	0.6	1.0
Total assets	**621.1**	**4.0**	**20.6**	**1.3**	**0.6**	**647.6**
Liabilities						
Credit from banking corporations	**-	-	-	-	-	**-
Travelers' checks in circulation	-	-	12.2	0.4	-	12.6
Creditors in respect of credit-card activity	530.9	3.8	7.7	-	0.2	542.6
Subordinated note	-	3.5	-	-	-	3.5
Other liabilities	65.0	**-	0.2	-	-	65.2
Total liabilities	**595.9**	**7.3**	**20.1**	**0.4**	**0.2**	**623.9**
Difference	**25.2**	**(3.3)**	**0.5**	**0.9**	**0.4**	**23.7**

* Including foreign-currency linked.

** Amount lower than NIS 50 thousand.

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
Unlinked Israeli currency					
Assets	545.1	164.1	136.1	17.1	-
Liabilities	536.5	147.6	125.6	14.6	-
Difference	8.6	16.5	10.5	2.5	-
CPI-linked Israeli currency					
Assets	0.8	0.8	0.7	-	-
Liabilities	0.3	0.2	0.2	-	-
Difference	0.5	0.6	0.5	-	-
Foreign currency (3)					
Assets	11.4	0.3	10.4	-	-
Liabilities	20.6	1.6	0.1	-	-
Difference	(9.2)	(1.3)	10.3	-	-
Non-monetary items					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Difference	-	-	-	-	-
Total					
Assets	557.3	165.2	147.2	17.1	-
Liabilities	557.4	149.4	125.9	14.6	-
Difference	(0.1)	15.8	21.3	2.5	-

(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 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) 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 5 years and up to 10 years	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	862.4	0.4	862.8	0.02%
-	824.3	0.5	824.8	-
-	38.1	(0.1)	38.0	0.02%
-	2.3	-	2.3	-
-	0.7	-	0.7	-
-	1.6	-	1.6	-
-	22.1	(0.1)	22.0	1.85%
-	22.3	0.2	22.5	-
-	(0.2)	(0.3)	(0.5)	1.85%
-	-	1.0	1.0	-
-	-	6.8	6.8	-
-	-	(5.8)	(5.8)	-
-	886.8	1.3	888.1	0.12%
-	847.3	7.5	854.8	-
-	39.5	(6.2)	33.3	0.12%

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
Unlinked Israeli currency					
Assets	387.3	119.8	102.2	8.3	2.8
Liabilities	387.6	101.5	95.3	7.7	2.8
Difference	(0.3)	18.3	6.9	0.6	-
CPI-linked Israeli currency					
Assets	2.5	0.8	0.6	0.1	-
Liabilities	2.3	0.6	0.7	0.1	0.1
Difference	0.2	0.2	(0.1)	-	(0.1)
Foreign currency (3)					
Assets	9.2	0.4	12.3	-	-
Liabilities	19.5	0.6	0.2	-	-
Difference	(10.3)	(0.2)	12.1	-	-
Non-monetary items					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Difference	-	-	-	-	-
Total					
Assets	399.0	121.0	115.1	8.4	2.8
Liabilities	409.4	102.7	96.2	7.8	2.9
Difference	(10.4)	18.3	18.9	0.6	(0.1)

(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 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) 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 5 years and up to 10 years	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	620.4	0.7	621.1	0.04%
-	594.9	1.0	595.9	0.35%
-	25.5	(0.3)	25.2	-
-	4.0	-	4.0	-
3.5	7.3	-	7.3	-
(3.5)	(3.3)	-	(3.3)	-
-	21.9	-	21.9	-
-	20.3	0.2	20.5	-
-	1.6	(0.2)	1.4	-
-	-	0.6	0.6	-
-	-	0.2	0.2	-
-	-	0.4	0.4	-
-	646.3	1.3	647.6	0.04%
3.5	622.5	1.4	623.9	0.31%
(3.5)	23.8	(0.1)	23.7	-

Note 18 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Unutilized credit-card credit lines:		
Credit risk on banks	415.8	513.7

The change in credit lines resulted from one credit line being set up for each card, for all possible types of usage of the cards. The transition to a single credit line per card began in late December 2009 and was completed in January 2010.

B. Antitrust Issues

Following talks held between the Company; its sister company Isracard Ltd., which provides operational services to the Company; and the credit-card companies Leumi Card Ltd. and Cartisei Ashrai LeIsrael Ltd. (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Antitrust Commissioner (hereinafter: the "**Commissioner**"), the Credit-Card Companies reached an arrangement among themselves (hereinafter: 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 (hereinafter: 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 B.M., 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 on October 31, 2006, under the terms formulated and agreed upon with the Antitrust 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.)

B. Antitrust Issues (cont.)

The terms of the Arrangement include, *inter alia*: the establishment of interchange-fee rates (the fee paid by acquirers of credit-card transactions to the issuers of the credit cards), 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.

On November 11, 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 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.

In May 2007, the Company signed the Domestic Agreement, which regularizes the interaction between acquirers and issuers for the purpose of acquiring in Israel of Visa and MasterCard cards, under temporary interchange-fee terms, as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards.

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. 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.

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

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Additional Regulation (cont.)

7. In March 2010, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 432 concerning the transfer of activity and closure of accounts of customers, and an amendment to Proper Conduct of Banking Business No. 470, Charge Cards, concerning the transfer of ongoing transactions in charge cards. Proper Conduct of Banking Business Directive No. 432 primarily aims to facilitate customers' transition among banks, in order to allow increased competition in the banking system. Towards that end, the circular amends the existing directive on this matter, to regularize the transfer of standing orders of customers switching from one bank to another, while also replacing their credit cards in the course of the transition. In particular, the amended directive aims to create the technological and legal infrastructure for the transfer of activity in ongoing transactions among different charge cards. This is achieved through the formation of a mechanism for the transfer of debits and the imposition of a duty upon the issuer of any credit card to perform the transfer of the activity for the customer, while communicating with the new issuer and with any merchants 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.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Additional Regulation (cont.)

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

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

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

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

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. 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 effect on the Company; however, at this stage the Company cannot estimate the extent of this effect.

D. Legal Proceedings

No legal claims have been filed against the Company.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

E. Travelers' Checks

Details regarding the cessation of issuance of travelers' checks were provided in the annual report for 2008. As noted therein, the Company continues to acquire travelers' checks issued in the past.

F. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company. The cumulative amount of the indemnification to be provided by the Company, pursuant to the commitment, to all directors in respect of one or more indemnification events shall not exceed 50% (fifty percent) of its shareholders' equity according to its financial statements published most recently prior to the date of the indemnification.

G. Agreement with Isracard Ltd.

The Company has an agreement with Isracard, a sister company, for the operation of the Company's credit-card issuance activity, acquiring in Israel of transactions executed with merchants using Visa cards, and the operation of travelers' checks activity.

The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's part in the operation of these activities, the Company pays a fee and other payments to Isracard, as agreed between the parties.

H. Contractual Engagements with Banking Corporations

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), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "Banks Under Arrangement"). The agreements with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the 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 banks are also responsible for any loss caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period.

The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

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, 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				December 31, 2009			
	Balance-sheet balance			Fair value	Balance-sheet balance			Fair value
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets:								
Cash on hand and deposits with banks	40.1	11.1	51.2	51.3	42.8	12.8	55.6	55.5
Debtors in respect of credit-card activity	-	835.7	835.7	833.0	-	591.0	591.0	589.9
Securities	-	-	-	-	-	-	-	-
Other financial assets	-	0.3	0.3	0.2	-	0.9	0.9	0.9
Total financial assets	**40.1**	**847.1**	**887.2**	**884.5**	**42.8**	**604.7**	**647.5**	**646.3**
Financial liabilities:								
Credit from banking corporations	0.8	-	0.8	0.8	*-	-	*-	*-
Travelers' checks in circulation	11.0	-	11.0	11.0	12.6	-	12.6	12.6
Creditors in respect of credit-card activity	-	770.6	770.6	768.0	-	542.5	542.5	541.3
Subordinated notes	-	16.1	16.1	16.1	-	3.5	3.5	4.0
Other financial liabilities	-	49.4	49.4	49.3	-	65.4	65.4	65.4
Total financial liabilities	**11.8**	**836.1**	**847.9**	**845.2**	**12.6**	**611.4**	**624.0**	**623.3**

(1) Financial instruments whose balance-sheet balance is the estimated fair value; instruments presented in the balance sheet at market value.

(2) Other financial instruments.

* Amount lower than NIS 50 thousand.

Note 20 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2010			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	51.2	75.0	-	-
Debtors in respect of credit-card activity(1)	*-	0.5	*-	*-
Securities	-	-	-	-
Debtors and debit balances	-	-	(0.1)	*-
Liabilities				
Credit from banking corporations	0.8	3.4	-	-
Creditors in respect of credit-card activity	-	-	11.5	32.2
Other liabilities	-	-	32.6	64.2
Shares (included in shareholders' equity)	*-	*-	-	-
Guarantees given by banks	55.9	55.9	-	-

(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 50 thousand.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2009			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	55.6	55.6	-	-
Debtors in respect of credit-card activity(1)	0.5	2.2	*-	*-
Securities				
Debtors and debit balances	*-	*-	*-	2.5
Liabilities				
Credit from banking corporations	*-	1.5	-	-
Creditors in respect of credit-card activity	-	-	20.0	21.7
Other liabilities	-	-	51.7	57.0
Shares (included in shareholders' equity)	*-	*-	-	-
Guarantees given by banks	53.3	53.3	-	-

(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 50 thousand.

Note 20 – Interested and Related Parties (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	Others
Income from credit-card transactions	-	*-
Profit from financing activity	0.8	-
Operating expenses	-	-
General and administrative expenses	-	(6.7)
Payments to banks(1)	(3.2)	-
Total	**(2.4)**	**(6.7)**

	For the year ended December 31, 2009	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	0.1	-
Profit (loss) from financing activity	0.7	(0.3)
Operating expenses	-	-
General and administrative expenses	-	(5.4)
Receipts from banks(1)	1.5	-
Total	**2.3**	**(5.7)**

(1) See Note 18H.

* Amount lower than NIS 50 thousand.

C. Interested and Related Parties

See Note 18H regarding contractual engagements with banking corporations.

D. Indemnification Letter

Bank Hapoalim B.M. (the Parent Company) has provided a letter of indemnification for certain assets of the Company, in order for the Company to comply with the minimum capital ratio pursuant to Proper Conduct of Banking Business Directive No. 311 of the Supervisor of Banks. The indemnification is contingent upon its necessity for the Company's compliance with the capital ratio limits.

Note 21 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Income from merchants:			
Merchant fees	95.2	74.1	51.4
Other income	0.2	0.1	*-
Total gross income from merchants	**95.4**	**74.2**	**51.4**
Less fees to other issuers	(63.1)	**(54.1)	**(39.5)
Total net income from merchants	32.3	20.1	11.9
Income in respect of credit-card holders:			
Issuer fees	4.5	4.7	4.9
Service fees	1.6	1.7	1.6
Fees from transactions abroad	1.2	1.3	1.2
Total income in respect of credit-card holders	**7.3**	**7.7**	**7.7**
Other income	3.0	2.9	2.7
Total income from credit-card transactions	**42.6**	**30.7**	**22.3**

* Amount lower than NIS 50 thousand.

** Reclassified; see Note 1S.

Note 22 – Profit from Financing Activity before Provision for Doubtful Debts

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
A. Financing income in respect of assets:			
From credit to merchants**	2.4	1.2	0.7
From deposits with banks	0.8	0.7	1.7
From bonds (see also Section C below)	-	0.2	-
Total in respect of assets	**3.2**	**2.1**	**2.4**
B. Other:			
Other financing income**	1.5	0.5	0.6
Other financing expenses	(1.8)	*-	(1.8)
Total other	**(0.3)**	**0.5**	**(1.2)**
Total profit from financing activity before provision for doubtful debts (1)	2.9	2.6	1.2
(1) Of which: exchange-rate differences, net	0.7	**0.6	**(0.9)

C. Details of results of operations in investments in bonds

	For the year ended December 31		
	2010	**2009**	**2008**
Financing income on an accrual basis from bonds:			
Available for sale	-	0.2	-
Total included in profit from financing activity in assets	-	0.2	-
Profits from sale of bonds available for sale	-	0.4	-

* Amount lower than NIS 50 thousand.

** Reclassified.

Note 23 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Wages and related expenses	7.2	5.3	4.3
Data processing and computer maintenance	4.4	2.9	1.7
Automatic Bank Services (ABS)	1.4	1.2	1.0
Operating expenses for incoming and outgoing tourism	3.7	4.0	3.5
Operating expenses for travelers' checks	0.6	0.4	0.4
Fees to other issuers**	-	-	-
Amortization and depreciation	*-	*-	*-
Communications	0.3	0.2	0.2
Production and delivery	1.6	2.0	1.9
Damages from abuse of credit cards	0.5	0.6	0.2
Rent and building maintenance	1.5	1.2	0.9
Others	0.3	0.3	0.2
Total operating expenses	**21.5**	**18.1**	**14.3**

* Amount lower than NIS 50 thousand.

** Reclassified; see Note 1S.

Note 24 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Wages and related expenses	3.5	2.9	3.0
Advertising	1.9	1.3	3.0
Customer retention and recruitment	0.3	0.2	0.3
Gift campaigns for credit-card holders	0.2	0.2	0.2
Vehicle maintenance*	1.0	0.8	0.8
Others*	0.3	0.2	0.2
Total sales and marketing expenses	**7.2**	**5.6**	**7.5**

* Reclassified.

Note 25 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Wages and related expenses	1.2	1.3	0.5
Payments to Isracard (1)	6.7	5.3	4.0
Professional services	0.4	0.3	0.2
Expenses to Parent Company*	1.5	1.2	0.7
Others*	1.5	1.2	1.0
Total general and administrative expenses	**11.3**	**9.3**	**6.4**

(1) See Note 18G.

* Reclassified.

Note 26 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
1. Item composition:			
Current taxes for the accounting year	0.3	0.4	0.2
Deferred taxes for the accounting year	0.1	(0.1)	*-
Provision for taxes on income	0.4	0.3	0.2

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

	For the year ended December 31		
	2010	**2009**	**2008**
Tax rate applicable to the Company in Israel	25%	26%	27%
Tax amount based on statutory rate	0.4	0.4	0.3
Tax increment (saving) in respect of:			
Temporary differences for which no deferred taxes were allocated	-	-	-
Exempt income	-	(*-)	(*-)
Addition (deduction) due to inflation	-	-	-
Loss from securities according to income tax	-	-	(0.1)
Loss carried forward from previous years	-	*-	-
Change in balance of deferred taxes	*-	(0.1)	*-
Taxes for previous years	-	(*-)	-
Provision for taxes on income	**0.4**	**0.3**	**0.2**

* Amount lower than NIS 50 thousand.

Note 26 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

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

4. Deferred Tax Balances

	December 31	
	2010	**2009**
From provision for doubtful debts	0.1	0.1
From provision for pensions	*-	0.1
Total	**0.1**	**0.2**

* Amount lower than NIS 50 thousand.

5. Reduction in Tax Rates

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

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

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

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

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

Note 27 – Operating Segments

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**	**Travelers' checks**	**Other[(1)]**	**Total**
Income					
Fees from externals	7.4	35.2	-	-	42.6
Intersegmental fees	0.5	(0.5)	-	-	-
Total	**7.9**	**34.7**	**-**	**-**	**42.6**
Profit from financing activity before provision for doubtful debts	-	2.7	0.2	-	2.9
Other income	-	-	-	[(2)] 0.2	0.2
Total income	**7.9**	**37.4**	**0.2**	**0.2**	**45.7**
Expenses					
Provision for doubtful debts	-	1.0	-	-	1.0
Operation	2.9	18.0	0.6	-	21.5
Sales and marketing	3.8	3.4	-	-	7.2
General and administrative	0.8	10.5	-	-	11.3
Payments to banks (net receipts from banks)	(1.1)	4.5	(0.4)	0.2	3.2
Total expenses	**6.4**	**37.4**	**0.2**	**0.2**	**44.2**
Operating profit (loss) before taxes	**1.5**	***-**	**(*-)**	***-**	**1.5**
Provision for taxes on operating profit	0.4	*-	(*-)	*-	0.4
Net profit (loss)	**1.1**	***-**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.1	-	-	-	4.1
Average balance of assets	0.2	707.9	12.6	0.2	720.9
Average balance of liabilities	0.3	(63.9)	0.3	8.6	(54.7)
Average balance of risk-adjusted assets	40.4	229.8	3.7	0.1	274.0

* Amount lower than NIS 50 thousand.

(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) Redemption of Class C shares by Visa Inc.

Note 27 – Operating Segments (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**	**Travelers' checks**	**Other[1]**	**Total**
Income					
Fees from externals	7.7	23.0	-	-	30.7
Intersegmental fees	0.5	(0.5)	-	-	-
Total	**8.2**	**22.5**	**-**	**-**	**30.7**
Profit from financing activity before provision for doubtful debts	-	2.2	0.4	-	2.6
Other income	-	-	-	[2] 0.1	0.1
Total income	**8.2**	**24.7**	**0.4**	**0.1**	**33.4**
Expenses					
Provision for doubtful debts	-	0.4	-	-	0.4
Operation	3.2	14.5	0.4	-	18.1
Sales and marketing	2.6	3.0	-	-	5.6
General and administrative	0.8	8.5	-	-	9.3
Payments to banks (net receipts from banks)	0.3	(1.8)	(*-)	0.1	(1.4)
Total expenses	**6.9**	**24.6**	**0.4**	**0.1**	**32.0**
Operating profit (loss) before taxes	**1.3**	**0.1**	**(*-)**	***-**	**1.4**
Provision for taxes on operating profit	0.3	*-	(*-)	*-	0.3
Net profit (loss)	**1.0**	**0.1**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.3	0.4	-	-	4.7
Average balance of assets	71.4	470.1	14.4	0.2	556.1
Average balance of liabilities	8.2	510.8	14.2	0.2	533.4
Average balance of risk-adjusted assets	15.0	457.5	2.9	(*-)	475.4

* Amount lower than NIS 50 thousand.

(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) Redemption of Class C shares by Visa Inc.

Note 27 – Operating Segments (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**	**Travelers' checks**	**Other[(1)]**	**Total**
Income					
Fees from externals	7.7	**14.6	-	-	22.3
Intersegmental fees	1.2	(1.2)	-	-	-
Total	**8.9**	**13.4**	**-**	**-**	**22.3**
Profit from financing activity before provision for doubtful debts	-	0.5	0.7	-	1.2
Other income	-	-	-	0.2	0.2
Total income	**8.9**	**13.9**	**0.7**	**0.2**	**23.7**
Expenses					
Provision for doubtful debts	-	0.1	-	-	0.1
Operation	3.1	**10.8	0.4	-	14.3
Sales and marketing	4.7	2.8	-	-	7.5
General and administrative	0.7	5.7	-	-	6.4
Payments to banks (net receipts from banks)	(0.6)	(5.3)	0.2	0.1	(5.6)
Total expenses	**7.9**	**14.1**	**0.6**	**0.1**	**22.7**
Operating profit (loss) before taxes	**1.0**	**(0.2)**	**0.1**	**0.1**	**1.0**
Provision for taxes on operating profit	0.2	(0.1)	0.1	*-	0.2
Net profit (loss)	**0.8**	**(0.1)**	***-**	**0.1**	**0.8**
Return on equity (percent net profit out of average capital)	8.7	(1.0)	-	0.5	8.2
Average balance of assets	61.3	286.1	14.5	(*-)	361.9
Average balance of liabilities	5.4	333.6	14.3	0.2	353.5
Average balance of risk-adjusted assets	14.9	281.0	3.0	(*-)	298.9

* Amount lower than NIS 50 thousand.

** Reclassified.

(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.

Note 28 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Total assets	888.1	647.6
Total liabilities	854.8	623.9
Shareholders' equity	33.3	23.7
Nominal net profit	1.1	1.1