Poalim Express Ltd.

Annual Report

For the year ended December 31, 2010

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Poalim Express 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 Poalim Express Ltd. ("**the Company**" or "**Poalim Express**") for the year 2010.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1995 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 and acquires American Express credit cards issued for use in Israel and abroad under a license granted to the Company by American Express Ltd. ("**the American Express Organization**"). The agreement with the worldwide American Express Organization concerning the issuance and acquiring of American Express credit cards was renewed in April 2010. This agreement is in effect for a period of seven additional years.

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

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

Share issuance – On March 24, 2010, the Company issued 39,326 common shares of par value NIS 1 each to Bank Hapoalim, at a price of NIS 890 per share. The total consideration was NIS 35 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, issues and acquires American Express credit cards; (2) Isracard and Europay (Eurocard) Israel (Ltd.) (“**Europay**”), which issue and acquire Isracard and MasterCard credit cards, respectively; (3) Aminit Ltd. ("**Aminit**"), a sister company, which issues and acquires Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which, to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which, to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and acquires Diners credit cards.

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 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	209	43	252
Non-bank cards – Credit risk on the Company	59	27	86
Total	**268**	**70**	**338**

Number of valid credit cards as of December 31, 2009

	Active cards	Inactive cards	Total
Bank cards	187	37	224
Non-bank cards – Credit risk on the Company	32	15	47
Total	**219**	**52**	**271**

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

	For the year ended December 31	
	2010	**2009**
Bank cards	8,648	7,759
Non-bank cards – Credit risk on the Company	1,559	995
Total	**10,207**	**8,754**

Definitions:

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

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

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

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

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

Profit and Profitability

The Company's net profit totaled NIS 22 million in 2010, compared with NIS 23 million in 2009, a decrease of 4%.

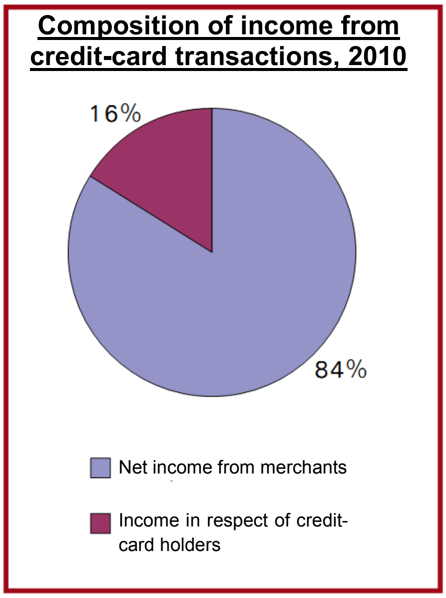
Net return on average equity reached 18.0% in 2010, compared with 31.9% in 2009. The decrease in this rate resulted from an increase in the shareholders' equity of the Company.

Developments in Income and Expenses

Income totaled NIS 225 million, compared with NIS 194 million in 2009, an increase of 16%.

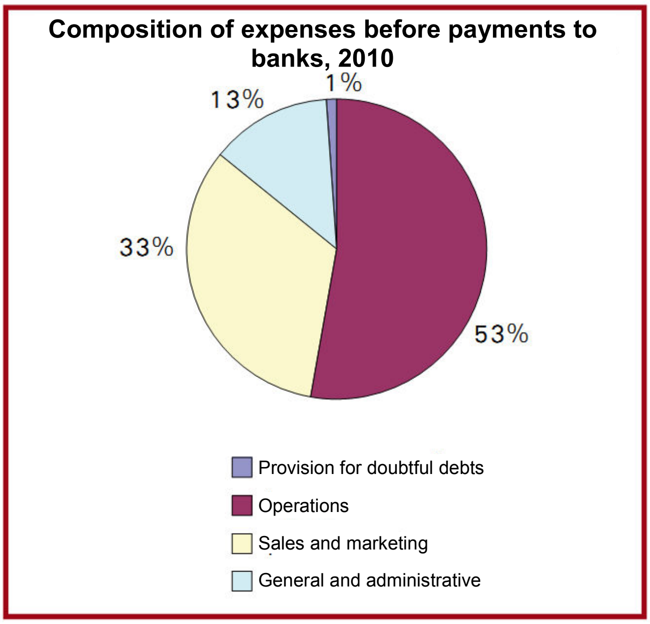
Income from credit-card transactions totaled NIS 223 million, compared with NIS 193 million in 2009, an increase of 16%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 188 million, compared with NIS 159 million in 2009, an increase of 18%, resulting from growth in the volume of activity in the Company's credit cards.
- Income in respect of credit-card holders totaled NIS 35 million, compared with NIS 34 million in 2009, an increase of 3%.



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

Expenses before payments to banks totaled NIS 141 million, compared with NIS 108 million in 2009, an increase of 31% (for an explanation of this increase, see the operating expenses item and the sales and marketing expenses item, below).



Expenses including payments to banks totaled NIS 195 million, compared with NIS 163 million in 2009, an increase of 20% (for an explanation of this increase, see the operating expenses item and the sales and marketing expenses item, below).

The provision for doubtful debts totaled NIS 1 million, compared with NIS 2 million in 2009, a decrease of 50%.

Operating expenses totaled NIS 74 million, compared with NIS 58 million in 2009, an increase of 28%. The increase mainly resulted from expenses in respect of royalties to the international organization.

Sales and marketing expenses totaled NIS 47 million, compared with NIS 30 million in 2009, an increase of 57%. The increase mainly resulted from an increase in customer retention and recruitment expenses, and from a gift offer for customers.

General and administrative expenses totaled NIS 19 million, compared with NIS 18 million in 2009, an increase of 6%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 54 million, compared with NIS 55 million in 2009, a decrease of 2%.

The ratio of expenses to income before payments to banks reached 63%, compared with 56% in 2009.

Operating profit before taxes totaled NIS 30 million, compared with NIS 31 million in 2009, a decrease of 3%.

The return of operating profit before taxes on average equity reached 24.6%, compared with 43.1% in 2009. The decrease resulted from an increase in the shareholders' equity of the Company.

The provision for taxes on operating profit totaled NIS 8 million, similar to 2009. The effective rate of tax out of total operating profit before taxes reached 26.6%, compared with 25.8% in 2009.

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2010 totaled NIS 1,779 million, compared with NIS 1,434 million on December 31, 2009.

Developments in the principal balance-sheet items:

	December 31			
	2010	2009	Change	
	NIS millions		NIS millions	%
Total balance sheet	1,779	1,434	345	24
Debtors in respect of credit-card activity	1,484	1,234	250	20
Cash on hand and deposits with banks	205	195	10	5
Creditors in respect of credit-card activity	1,562	1,305	257	20
Subordinated notes	56	25	31	124
Shareholders' equity	143	86	57	66

Debtors in respect of credit-card activity totaled NIS 1,484 million on December 31, 2010, compared with NIS 1,234 million at the end of 2009. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the cards issued by the Company.

Cash on hand and deposits with banks totaled NIS 205 million on December 31, 2010, compared with NIS 195 million at the end of 2009. The increase mainly resulted from growth in the Company's activity.

Subordinated notes totaled NIS 56 million on December 31, 2010, compared with NIS 25 million at the end of 2009. The increase resulted from an additional offering of subordinated notes, in the amount of NIS 30 million, in September 2010. Pursuant to the resolution of the Board of Directors of the Company of July 28, 2010, the linkage terms of the notes were changed from CPI-linked bearing a fixed rate of interest to floating rate only.

Creditors in respect of credit-card activity totaled NIS 1,562 million on December 31, 2010, compared with NIS 1,305 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 increase resulted from an increase in volumes of activity using the Company's credit cards.

Shareholders' equity totaled NIS 143 million on December 31, 2010, compared with NIS 86 million at the end of 2009. The increase resulted from the issuance of shares of the Company to Bank Hapoalim on March 24, 2010, in the amount of NIS 35 million, and from the Company's net profit.

The ratio of shareholders' equity to the balance sheet reached 8% on December 31, 2010, compared with 6% on December 31, 2009.

The ratio of capital to risk-adjusted assets under the Basel II directives reached 14.2% on December 31, 2010, compared with 9.4% on December 31, 2009.

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

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

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

A credit-card company issues credit cards to its customers (credit-card holders). Credit-card holders use the card as a means of payment to merchants, and the merchants provide the credit-card holders with goods or services. Customers join the credit-card system by signing a credit-card contract with the issuer and receiving the credit card. Credit-card holders make a commitment to repay amounts owed arising from their use of the credit card.

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the acquirer or merchant, respectively, for card issuance and operational services. As of the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Europay, Aminit, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

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

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

Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company has agreements, including Bank Hapoalim (the parent company), Mizrahi Tefahot Bank Ltd., Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., and Jerusalem Bank Ltd. (jointly, the "**Banks Under Arrangement**"). After the balance-sheet date, the Company signed an agreement with Union Bank Ltd. for the distribution of credit cards to its customers. The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs.

As noted, Isracard administers and operates credit-card issuance and acquiring activity on behalf of the Company. See "Contractual Engagement between the Company and Isracard," above. See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment – In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) brand image and prestige, and uniqueness in its area of activity; (3) the collaboration with Bank Hapoalim to distribute and issue credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency.

Key entry barriers in the operating segment – The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its 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 equity capital, 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 equity capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment – 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 American Express credit cards for use in Israel and abroad. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally. The Company issues a range of credit cards tailored to various population segments, including club cards, Business cards for corporate clients, Platinum cards for high net worth clients, and Centurion cards for ultra high net worth clients.

In addition, the Company, through Isracard, offers various credit plans based on Credit plans, various all-purpose loans based on credit facilities in credit cards, various options for spreading payments, and information services and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment.

The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) 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 expenses for customer-club marketing, advertising, and management; the loyalty program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 20 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

The various agreements of the Company 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 (bank and/or non-bank) whose share of the volume of transactions executed in the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2010.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted through a specialized marketing department within the Company, on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, operation of a loyalty program, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, unique services offered to customers (including online buying services through a third party), international plans providing discounts and benefits, a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the "Cessation of Activity of a Bank in Israel" and "Competition."

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

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

Contractual engagement with the Hever club – In January 2009, Hever Career Military Personnel and Retirees Ltd. and Hever Consumer Club Ltd. (jointly: the "**Hever Club**") entered into an agreement with the Company, Isracard, and Europay for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). In March 2009, the Company, Isracard, and Europay began marketing the card to the members of the Hever Club. The term of the Hever Agreement is six years from the aforesaid execution date, and may be extended in accordance with its terms. In addition, arrangements were formulated with regard to the termination of prior contractual engagements, including the required adjustments in the relationships between the relevant parties. Pursuant to the Hever Agreement, among other matters, Isracard will extend credit for the Hever Credit Cards. The Hever Agreement also regularizes various matters pertaining to the cards, including arrangements for payment and account settlement between the parties, the process of issuing the new cards, operational matters, benefits and rights of Hever Club members, and marketing.

Competition

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

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

In order to cope with the competition in this sector, the Company (including through Isracard, which administers and operates credit-card issuance activity on behalf of the Company) takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) reinforcement of status and image through advertising, benefits, and various offers for cardholders; (3) the provision of unique services (including online buying services through a third party) and international discount and benefit programs; (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (5) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the American Express 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) brand image and prestige, and uniqueness in its area of activity; (4) professional, skilled, experienced human capital; (5) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (6) the range of products and services offered to a broad spectrum of customers; (7) an advanced service system allowing a high quality of customer service; and (8) a robust capital structure and positive cash flow.

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

The Credit-Card Acquiring Segment

General

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

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

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various marketing, financial, and operational services, such as an option for payment in installments, flexible crediting dates, targeted information, and joint sales-promotion campaigns.

As noted, Isracard administers and operates credit-card issuance and acquiring activity on behalf of the Company (see "Contractual Engagement between the Company and Isracard," above).

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

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

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

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

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Products and Services

The Company acquires transactions with merchants which have entered into agreements with it, executed using American Express cards, mainly against the collection of a merchant fee. As noted, Isracard administers and operates credit-card acquiring activity on behalf of the Company. The Company also offers marketing, financial, and operational services, such as sales-promotion campaigns, information regarding credits of the merchant, loans, discounting services for credit-card sales slips, advances and early payment services, flexible crediting dates and options for payments in installments, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

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

For details regarding the segmentation of income from credit-card transactions, see Note 20 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, 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 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 benefit-granting merchants, and to expand the Company's operations through new business activities, including credit granting; (2) to strengthen the Company's image; and (3) to retain merchants as customers by forming closer relationships with them and by providing marketing, financial, and operational services, including information regarding past and future credits of the merchant, advertising campaigns and unique marketing information, benefits, and programs at a high level of service.

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

Competition

The credit-card acquiring field is characterized by a very high level of competition, due to factors including the operation of the local interface for cross-acquiring of transactions in 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, such as payment in installments, advances, flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant, discounting services, etc.

In order to cope with the competition in this area, the Company (including through Isracard, which administers and operates credit-card 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; and (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems.

The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as financing services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the 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 American Express Organization for the issuance and acquiring of credit cards; (2) the arrangement with Isracard for the administration and operation of credit-card issuance and acquiring activity; (3) a targeted marketing, sales, and service system specializing in providing suitable solutions to merchants, while routinely maintaining contact with them, containing professional, skilled, experienced personnel; (4) a brand with presence and power; (5) an advanced technological infrastructure allowing response to the needs of the various merchants; and (6) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, 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 competition against other credit-card brands in Israel.

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

Seasonality

Because credit-card transactions are primarily based on private consumption in Israel, seasonality in the areas of 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

	For the year ended December 31, 2010		
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Total**
Income			
Fees from externals	35	188	223
Intersegmental fees	97	(97)	-
Total	132	91	223
Profit from financing activity before provision for doubtful debts	*-	1	1
Other income	1	*-	1
Total income	**133**	**92**	**225**
Expenses			
Provision for doubtful debts	1	*-	1
Operations	45	29	74
Sales and marketing	42	5	47
General and administrative	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**70**	**195**
Operating profit before taxes	**8**	**22**	**30**
Provision for taxes on operating profit	2	6	8
Net profit	**6**	**16**	**22**
Return on equity (percent net profit out of average capital)	4.9	13.1	18.0
Average balance of assets	1,239	290	1,529
Average balance of liabilities	63	1,344	1,407
Average balance of risk-adjusted assets	1,059	186	1,245

* Amount lower than NIS 0.5 million.

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**	**Total**
Income			
Fees from externals	34	**159	193
Intersegmental fees	89	(89)	-
Total	**123**	**70**	**193**
Profit from financing activity before provision for doubtful debts	*-	*-	*-
Other income	1	*-	1
Total income	**124**	**70**	**194**
Expenses			
Provision for doubtful debts	2	*-	2
Operations	36	**22	58
Sales and marketing	26	4	30
General and administrative	9	9	18
Payments to banks	36	19	55
Total expenses	**109**	**54**	**163**
Operating profit before taxes	**15**	**16**	**31**
Provision for taxes on operating profit	4	4	8
Net profit	**11**	**12**	**23**
Return on equity (percent net profit out of average capital)	15.3	16.6	31.9
Average balance of assets	1,162	126	1,288
Average balance of liabilities	50	1,166	1,216
Average balance of risk-adjusted assets	351	24	375

* Amount lower than NIS 0.5 million.

** Reclassified.

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**	**Total**
Income			
Fees from externals	35	**147	182
Intersegmental fees	86	(86)	-
Total	**121**	**61**	**182**
Loss from financing activity before provision for doubtful debts	(*-)	(1)	(1)
Other income	1	*-	1
Total income	**122**	**60**	**182**
Expenses			
Provision for doubtful debts	2	*-	2
Operations	**30	**22	52
Sales and marketing	**32	**3	35
General and administrative	7	8	15
Payments to banks	37	16	53
Total expenses	**108**	**49**	**157**
Operating profit before taxes	**14**	**11**	**25**
Provision for taxes on operating profit	4	3	7
Net profit	**10**	**8**	**18**
Return on equity (percent net profit out of average capital)	18.2	14.5	32.7
Average balance of assets**	1,069	130	1,199
Average balance of liabilities**	46	1,098	1,144
Average balance of risk-adjusted assets**	297	26	323

* Amount lower than NIS 0.5 million.

** Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 6 million, compared with NIS 11 million in 2009, a decrease of 45%.

Net return on average equity reached 4.9% in 2010, compared with 15.3% in 2009.

Developments in Income and Expenses

The segment's income totaled NIS 133 million, compared with NIS 124 million in 2009, an increase of 7%.

Operating income totaled NIS 132 million, compared with NIS 123 million in 2009, an increase of 7%.

Profit from financing activity before provision for doubtful debts was lower than NIS 0.5 million, similar to 2009.

Expenses before payments to banks totaled NIS 97 million, compared with NIS 73 million in 2009, an increase of 33%.

Expenses including payments to banks totaled NIS 125 million, compared with NIS 109 million in 2009, an increase of 15%.

The provision for doubtful debts totaled NIS 1 million, compared with NIS 2 million in 2009, a decrease of 50%.

Operating expenses totaled NIS 45 million, compared with NIS 36 million in 2009, an increase of 25%.

Sales and marketing expenses totaled NIS 42 million, compared with NIS 26 million in 2009, an increase of 62%.

General and administrative expenses totaled NIS 9 million, similar to 2009.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 28 million, compared with NIS 36 million in 2009, a decrease of 22%.

The ratio of expenses to income before payments to banks reached 72.9%, compared with 58.9% in 2009.

Operating profit before taxes totaled NIS 8 million, compared with NIS 15 million in 2009, a decrease of 47%.

The return of operating profit before taxes on average equity reached 6.6% in 2010, compared with 20.9% in 2009.

The provision for taxes on operating profit totaled NIS 2 million, compared with NIS 4 million in 2009, a decrease of 50%.

Profit and Profitability – Acquiring Segment

The segment's net profit totaled NIS 16 million, compared with NIS 12 million in 2009, an increase of 33%. The increase in the segment's net profit in comparison to the preceding year mainly resulted from an increase in the volume of activity in Israel using the Company's credit cards.

Net return on average equity reached 13.1% in 2010, compared with 16.6% in 2009.

Developments in Income and Expenses

The segment's income totaled NIS 92 million, compared with NIS 70 million in 2009, an increase of 31%. The increase resulted from an increase in the volume of activity of the Company.

Net income from fees totaled NIS 91 million, compared with 70 million in 2009, an increase of 30%, resulting from an increase in the domestic volume of purchases using the Company's cards and an increase in the number of credit cards.

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

Expenses before payments to banks totaled NIS 44 million, compared with NIS 35 million in 2009, an increase of 26%.

Expenses including payments to banks totaled NIS 70 million, compared with NIS 54 million in 2009, an increase of 30%.

The provision for doubtful debts was lower than NIS 0.5 million, similar to the preceding year.

Operating expenses totaled NIS 29 million, compared with NIS 22 million in 2009, an increase of 32%.

Sales and marketing expenses totaled NIS 5 million, compared with NIS 4 million in 2009, an increase of 25%.

General and administrative expenses totaled NIS 10 million, compared with NIS 9 million in 2009, an increase of 11%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 26 million, compared with NIS 19 million in 2009, an increase of 37%. The increase resulted from an increase in the Company's income.

The ratio of expenses to income, before payments to banks, reached 47.8%, compared with 50% in 2009.

Operating profit before taxes totaled NIS 22 million, compared with NIS 16 million in 2009, an increase of 37.5%.

The return of operating profit before taxes on average equity reached 18.0% in 2010, compared with 22.2% in 2009.

The provision for taxes on operating profit totaled NIS 6 million, compared with NIS 4 million in 2009, an increase of 50%.

Intangible Assets

The Company has a memorandum of understanding extending its contractual engagement with the American Express Organization for the issuance and acquiring of American Express cards in Israel for a period of seven additional years. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

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

Human Capital

The number of employee positions decreased by 9 in 2010, compared with the number of positions at the end of 2009*. Most of the decrease occurred in positions in the areas of customer service and operations.

	2010	2009**
Average positions on a monthly basis	173	161
Total positions at year end	169	177

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

** Restated.

Manpower inputs were adjusted to the volume of activity in the areas of service, collection, credit, and information systems. In addition, many actions were taken to respond to the changing needs expressed by the various departments, according to the key projects in the Group, with changes and adjustments made in order to provide efficient, high-quality solutions.

In accordance with the directives of the Supervisor of Banks, the head of the Security Division, who is a member of Management, was appointed to the position of chief risk control officer of the Company during the year.

Trends in Human Resources

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

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

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

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

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

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

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

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

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

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

Ethical Code

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

Professional Training

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

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

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

Instilling a Culture of Surveys

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

Occupational Stability

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

A paper on customer service employee retention earned second place in the Israel Management Center's competition for excellence in service.

Promotion of Diversity

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

Community Involvement and Contribution

Most of the activity in the area of community involvement and contributions is conducted through the activity of Isracard.

Service Providers

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

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 agreement with Beeri Printers for an unforeseen reason, it would be difficult for the Company to obtain this service at the level currently provided. However, in the opinion of the Company, it would be possible to arrange to receive similar services from other companies.

Other Matters

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

Taxation

Reduction of Tax Rates

On July 25, 2005, the Knesset passed the Income Tax Ordinance Amendment Law (No. 147), 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 the Years 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. These charge-card laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of the issuance and acquiring of charge cards. In addition, various directives issued by the Supervisor of Banks and applicable to credit-card companies apply to the Company, such as Proper Conduct of Banking Business Directive No. 470 (Charge Cards), which regularizes the operation of credit-card companies that are auxiliary banking corporations and of banking corporations with regard to the operation of charge-card systems. In addition, additional Proper Conduct of Banking Business Directives apply to the Company.

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

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

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

Antitrust Issues and 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.

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

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

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

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

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

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

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

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

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

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

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

Legal Proceedings

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

Contingent Liabilities

Indemnification of directors: The Company has undertaken a commitment to indemnify directors of the Company. The amount of the indemnification to be provided by the Company under this commitment to all directors of the Company in aggregate in respect of one or more indemnity events shall not exceed 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. Maintaining the level of revenues and profitability and generating value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the club strategy.
5. Maintaining the Company's image and proprietary standing.
6. Extending collaborations with merchants.
7. Ongoing improvement in quality of service to banks, clubs, merchants, and cardholders.
8. Maintaining a high technological level: innovation and support for product development; service and improvements in efficiency.
9. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.
10. High-quality systems of risk management, credit control, and fraud prevention.
11. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

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

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

Operational Risks

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

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

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

- Operational risks identified in new processes and products.
- Appropriate controls established.
- Operational risk management and control system updated routinely.
- Business continuity plan and emergency preparedness plan established.
- All emergency procedures of 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 the market risk management policy, Isracard, which administers and operates the activity of the Company, as noted above, has 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 on a monthly basis.

Interest-rate exposure exists primarily in the shekel segment, as only this segment contains assets at fixed interest rates. 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	1,709	8	50	1	1,768
Financial liabilities	1,558	8	45	1	1,612
Net fair value of financial instruments	151	*-	5	*-	156

	December 31, 2009				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	1,381	6	39	*-	1,426
Financial liabilities	1,287	36	23	1	1,347
Net fair value of financial instruments	94	(30)	16	(1)	79

* Amount lower than NIS 0.5 million.

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

	December 31, 2010							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	151	*-	5	*-	-	156	*-	-
Immediate parallel increase of 0.1%	151	*-	5	*-	-	156	*-	-
Immediate parallel decrease of 1%	151	*-	5	*-	-	156	*-	-

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

	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%	94	(27)	16	(1)	-	82	3	3.8
Immediate parallel increase of 0.1%	94	(29)	16	(1)	-	80	1	1.3
Immediate parallel decrease of 1%	94	(32)	16	(1)	-	77	(2)	(2.5)

* "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 on-call loans from banks.

During the period, the disposable capital of the Company was usually invested in deposits with banks in shekels, and in credit to merchants.

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

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 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 and a group provision. The specific provision reflects the loss inherent in debts created, the collection of which is in doubt. In determining the amount of the provision, the Company relies, among other factors, on information available to it regarding debtors' financial position and volume of activity, an evaluation of collateral received from them, and past experience. The group provision is calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision. The Company is also preparing for the implementation of the Public Reporting Directives on the subject of the measurement and disclosure of impaired debts, credit risk, and provision for credit losses. The net balance of debtors in respect of debts created, the collection of which is in doubt, in respect of credit cards, after provision for specific debts, is approximately NIS 8 million.

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

	Balance as of December 31, 2010
	Reported amounts
1. Non-performing assets	
Impaired credit to the public not accruing interest income:	
Examined on an individual basis	2
Examined on a group basis*	-
Total impaired debts not accruing interest income	2
Total non-performing assets	**2**

* 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.

	Balance as of December 31, 2010
	Reported amounts
2. Problematic commercial credit risk (1)	
Balance-sheet credit risk in respect of the public	1
Total problematic commercial credit risk in respect of the public	1
Total problematic commercial credit risk	**1**
3. Unimpaired debts in arrears of 90 days or more	1

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

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

	December 31, 2010
Balance of retained earnings as of Dec. 31, 2010 included in the financial statements	108
Cumulative effect net of tax of initial implementation of the new directives as of Dec. 31, 2010	(9)
Of which:	
Change in provision for credit losses	(10)
Related tax effect	1
Balance of retained earnings as of Dec. 31, 2010 under the new directives	99

Risk and Credit Indices

		December 31, 2010
		%
(A)	Ratio of balance of impaired credit to the public not accruing interest income	0.13
(B)	Ratio of balance of unimpaired credit to the public in arrears of 90 days or more, to balance of credit to the public	0.07
(C)	Ratio of balance of provision for credit losses in respect of credit to the public, to balance of credit to the public	0.40
(D)	Ratio of balance of provision for credit losses, to balance of impaired credit to the public not accruing interest income	406.70
(E)	Ratio of problematic commercial credit risk in respect of the public, to total credit risk in respect of the public	0.07

Credit Exposure to Foreign Financial Institutions and Foreign Countries

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

Capital Adequacy

The Company assesses its capital adequacy routinely. Starting with the financial statements as of December 31, 2009, the Company has presented 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 13B to the Financial Statements.

Basel II

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

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

The Basel II recommendations consist of three pillars:

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

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

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

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

- Adopt a target core capital ratio, as of December 31, 2010, of no less than 7.5%, after all of the required deductions from Tier I capital.
- Submit a work plan for compliance with this target to the Supervisor of Banks by the end of August 2010.
- Credit-card companies shall not distribute dividends, without advance approval by the Supervisor of Banks, if they do not meet the aforesaid target or if the dividend distribution would cause a failure to meet the target.

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

Risk Appetite

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

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

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

Capital Adequacy Target

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

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

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

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

Table number	Subject	Qualitative disclosure	Quantitative disclosure
		Page number	
1	Applicability of implementation	54	-
2	Structure of capital	54	55
3	Capital adequacy	55	53
4	Credit risk – general disclosure requirements	57	-
5	Credit risk	-	56
6	Credit risk – disclosure for portfolios treated using IRB approaches (not relevant to the Company)	-	-
7	Credit risk mitigation (CRM)	70	66
8	General disclosure regarding exposures related to credit risk of counterparties	71	-
9	Securitization (not relevant to the Company)	-	-
10	Disclosure by companies using the standard approach	71	-
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	74	74

Capital Adequacy

	December 31, 2010	December 31, 2009
1. Capital for the calculation of the capital ratio		
	NIS millions	
Tier I capital, after deductions*	143	86
Tier II capital, after deductions**	56	25
Total overall capital	**199**	**111**

* In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2010 its registered share capital increased by NIS 35 million, divided into 39,326 NIS 1 par value common shares, for a total consideration of NIS 890 per share (the total consideration was NIS 35 million).

** Subordinated notes included in lower Tier II capital shall not exceed 50% of the Tier I capital not allocated to market risks, 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
	NIS millions			
Credit risk	1,172	105	975	88
Market risks – foreign currency exchange rate risk	6	1	15	1
Operational risk	222	20	192	17
Total weighted balances of risk-adjusted assets	**1,400**	**126**	**1,182**	**106**

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	10.2	7.3
Ratio of Tier I capital to risk-adjusted assets	10.2	7.3
Ratio of total capital to risk-adjusted assets	14.2	9.4
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 0.6%.

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 for 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	*-	*-
Retained earnings	108	86
Premium on shares	35	-
Other capital instruments	*-	*-
Total core capital	143	86
Total Tier I capital	143	86
Tier II capital	56	25
Total eligible capital	**199**	**111**

* Amount lower than NIS 0.5 million.

The effect on capital of the implementation of the impaired debt directives is a decrease in retained earnings of NIS 9 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	766	69	829	75
Corporations	68	6	58	5
Retail loans to individuals	310	28	78	7
Small businesses	23	2	5	1
Other assets	5	*-	5	*-
Total credit risk	1,172	105	975	88
Market risks – foreign currency exchange rate risk	6	1	15	1
Operational risk	222	20	192	17
Total weighted balances of risk-adjusted assets / capital requirements	**1,400**	**126**	**1,182**	**106**

* Amount lower than NIS 0.5 million.

	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)	199	111
Ratio of core capital to risk-adjusted assets	10.2%	7.3%
Ratio of Tier I capital to risk-adjusted assets	10.2%	7.3%
Ratio of total capital to risk-adjusted assets	14.2%	9.4%
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 provisions for doubtful debts on two levels: a specific provision and a provision on a group basis.

Specific Provision

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

Group Provision

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

Bad Debts

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

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

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

Credit Risk Management

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

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

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

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

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

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

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

Principles of Credit Concentration Risk Management

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

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

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 globally – Cross-acquiring activity occurs between the Company and the global credit-card company.

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

- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel; deposits of foreign currency with financial institutions 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 issued by the Company, the repayment capability of retail cardholders is effectively monitored through various control tools, including the use of behavioral rating models and monitoring activities performed routinely by the Security Department. With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Banks Under Arrangement, approvals were received from the banks with regard to the existence of effective monitoring of the repayment capability of the holders of the retail cards.

Credit Exposures

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

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

	December 31, 2010					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
	NIS millions					
Banking corporations	86	205	291	-	-	291
Corporations	93	-	93	65	-	158
Retail to individuals	1,164	-	1,164	6,984	-	8,148
Small businesses	226	-	226	813	-	1,039
Government	*-	-	*-	1	-	1
Other assets [(1)]	-	5	5	-	-	5
Total exposures	**1,569**	**210**	**1,779**	**7,863**	**-**	**9,642**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

	December 31, 2009					
	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
	NIS millions					
Banking corporations	1	195	196	-	-	196
Corporations	77	-	77	55	-	132
Retail to individuals	951	-	951	7,466	-	8,417
Small businesses	206	-	206	1,003	-	1,209
Government	*-	-	*-	-	-	*-
Other assets [(1)]	-	5	5	-	-	5
Total exposures	**1,235**	**200**	**1,435**	**8,524**	**-**	**9,959**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

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

	December 31, 2010					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure(2)**
	NIS millions					
Banking corporations	79	194	273	-	-	273
Corporations	63	-	63	73	-	136
Retail to individuals	1,052	-	1,052	7,078	-	8,130
Small businesses	211	-	211	875	-	1,086
Government	-	-	-	1	-	1
Other assets (1)	-	5	5	-	-	5
Total exposures	**1,405**	**199**	**1,604**	**8,027**	**-**	**9,631**

(1) Includes fixed assets and others.

(2) Average exposure calculated on a quarterly basis.

	December 31, 2009					
	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(2)**
	NIS millions					
Banking corporations	1	151	152	*-	-	152
Corporations	58	-	58	22	-	80
Retail to individuals	901	-	901	4,646	-	5,547
Small businesses	189	-	189	532	-	721
Government	*-	19	19	1	-	20
Other assets (1)	-	6	6	-	-	6
Total exposures	**1,149**	**176**	**1325**	**5,201**	**-**	**6,526**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

(2) Average exposure calculated on a quarterly basis.

			December 31, 2010		
Exposure	Credit risk	Type of exposure	Problematic debt (1)	Debt in arrears (2)	Provision for doubtful debts
			NIS millions		
Retail to individuals	Balance sheet	Credit	*-	*-	1
Small businesses	Balance sheet	Credit	*-	*-	*-
Corporations	Balance sheet	Credit	12	-	7
Total			**12**	***-**	**8**

			December 31, 2009		
Exposure	Credit risk	Type of exposure	Problematic debt (1)	Debt in arrears (2)	Provision for doubtful debts
			NIS millions		
Retail to individuals	Balance sheet	Credit	*-	*-	1
Small businesses	Balance sheet	Credit	*-	*-	*-
Corporations	Balance sheet	Credit	11	-	9
Total			**11**	***-**	**10**

* Amount lower than NIS 0.5 million.

(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 on hand and deposits with banks	205	-	-	205	-	205
Credit:						
Debtors in respect of credit cards	1,360	52	9	1,421	7	1,428
Credit to merchants	24	-	-	24		24
International credit-card organization	31	-	-	31	-	31
Income receivable	1	-	-	1	-	1
Other assets	86	-	-	86	2	88
Non-monetary assets	-	-	-	-	2	2
Off balance sheet – credit facilities	7,863	-	-	7,863	*-	7,863
Total	**9,570**	**52**	**9**	**9,631**	**11**	**9,642**

	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 on hand and deposits with banks	195	-	-	195	-	195
Credit:						
Debtors in respect of credit cards	1,129	42	8	1,179	(*-)	1,179
Credit to merchants	28	1	*-	29	1	30
International credit-card organization	25	-	-	25	-	25
Income receivable	1	-	-	1	-	1
Other assets	1	-	-	1	2	3
Non-monetary assets	-	-	-	-	2	2
Off balance sheet – credit facilities	8,524	-	-	8,524	-	8,524
Total	**9,903**	**43**	**8**	**9,954**	**5**	**9,959**

* Amount lower than NIS 0.5 million.

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

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2010						
		NIS millions						
Retail to individuals	Unrated	-	-	-	8,148	-	*-	8,148
Small businesses	Unrated	-	-	-	1,039	-	*-	1,039
Corporations	Unrated	-	-	-	-	155	3	158
	Rated	-	-	-	-	*-	-	*-
Banking corporations	Unrated	-	86	*-	-	-	-	86
	Rated	-	202	3	-	-	-	205
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	5	-	5
Total		**1**	**288**	**3**	**9,187**	**160**	**3**	**9,642**

* Amount lower than NIS 0.5 million.

After credit-risk mitigation

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2010						
		NIS millions						
Retail to individuals	Unrated	-	-	-	2,148	-	*-	2,148
Small businesses	Unrated	-	-	-	129	-	*-	129
Corporations	Unrated	-	-	-	-	67	3	70
Banking corporations	Unrated	-	192	860	-	-	-	1,052
	Rated	-	680	5,557	-	-	-	6,237
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	5	-	5
Total		**1**	**872**	**6,417**	**2,277**	**72**	**3**	**9,642**

* Amount lower than NIS 0.5 million.

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						
	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	8,414	3	-	8,417
Small businesses	Unrated	-	-	-	1,207	2	-	1,209
Corporations	Unrated	-	-	-	-	78	2	80
	Rated	-	-	-	-	52	-	52
Banking corporations	Unrated	-	*-	-	-	-	-	*-
	Rated	-	196	-	-	-	-	196
Public sector	Unrated	-	-	-	-	-	-	-
Government	Rated	-	-	-	-	-	-	-
Other assets	Unrated	-	-	-	-	5	-	5
Total		**-**	**196**	**-**	**9,621**	**140**	**2**	**9,959**

After credit-risk mitigation

		December 31, 2009						
	Rating	0%	20%	50%	75%	100%	150%	Net credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	1,047	-	-	1,047
Small businesses	Unrated	-	-	-	50	1	-	51
Corporations	Unrated	-	-	-	-	57	2	59
	Rated	-	-	-	-	-	-	-
Banking corporations	Unrated	-	155	919	-	-	-	1,074
	Rated	-	615	7,108	-	-	-	7,723
Public sector	Unrated	-	-	-	-	-	-	-
Government	Rated	*-	-	-	-	-	-	*-
Other assets	Unrated	-	-	-	-	5	-	5
Total		***-**	**770**	**8,027**	**1,097**	**63**	**2**	**9,959**

* Amount lower than NIS 0.5 million.

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	1,164	(943)	-	221
	Off balance sheet	Credit facility	6,984	(5,057)	-	1,927
Small businesses	Balance sheet	Credit	226	(206)	-	20
	Off balance sheet	Credit facility	813	(704)	-	109
Corporations	Balance sheet	Credit	93	(27)	-	66
	Off balance sheet	Credit facility	65	(61)	-	4
Banking corporations	Balance sheet	Credit	86	-	1,176	1,262
	Balance sheet	Deposits	205	-	-	205
	Off balance sheet	Credit facility	-	-	5,822	5,822
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	1	-	-	1
Other assets	Balance sheet	Other assets	5	-	-	5
Total			**9,642**	**(6,998)**	**6,998**	**9,642**

Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of the Banks Under Arrangement		Net credit risk exposure
			December 31, 2009			
				Total amounts subtracted	Total amounts added	
			NIS millions			
Retail to individuals	Balance sheet	Credit	951	(951)	-	-
	Off balance sheet	Credit facility	7,466	(6,419)	-	1,047
Small businesses	Balance sheet	Credit	206	(204)	-	2
	Off balance sheet	Credit facility	1,003	(953)	-	50
Corporations	Balance sheet	Credit	77	(20)	-	57
	Off balance sheet	Credit facility	55	(54)	-	1
Banking corporations	Balance sheet	Credit	1	-	1,175	1,176
	Balance sheet	Deposits	195	-	-	195
	Off balance sheet	Credit facility	-	-	7,426	7,426
Government	Balance sheet	Credit	-	-	-	-
	Off balance sheet	Credit facility	-	-	-	-
Other assets	Balance sheet	Other assets	5	-	-	5
Total			**9,959**	**(8,601)**	**8,601**	**9,959**

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 business, the type of credit product, and the turnovers of the merchant. In addition, loans to merchants are conditional upon the receipt of a personal guarantee from the owner.

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

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

General Disclosure Regarding Exposures Related to Counterparty Credit Risk

Hedging Interest-Rate Exposures

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

The Company is examining the use of IRS (interest rate swap) instruments to hedge interest-rate positions to which it is exposed. IRS contracts, if purchased, will be used to reduce the risk that unexpected changes in interest rates may damage the fair value of the assets and liabilities of the Company, and consequently its financial condition.

Hedging Foreign Currency Exposures

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

Disclosure by Companies Using the Standard Approach

General

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

Strategy and Processes

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

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

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

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager

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

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.
- Procedures for monitoring and control on matters related to exposure management.
- Conducting a weekly financial meeting to organize activity and reporting, within the internal investment committee.

- Monthly reports on market and liquidity risk, including proprietary activity, to the Board of Directors.
- Management of foreign currency risks, including decisions regarding hedging of long-term foreign currency exposures.
- Asset and liquidity management.
- Routine measurement and control of the market and liquidity risk indices of the Company.
- Preparation of reports on interest-rate risks.
- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

Chief Risk Officer

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risks are measured in the following reports:

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

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

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital requirements in respect of foreign currency exchange rate risk

	Capital requirement	
	December 31, 2010	December 31, 2009
	In NIS millions	
Market risks – Foreign currency exchange rate risk*	1	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%).

Operational Risk

Capital requirements in respect of operational risk

	Capital requirement	
	December 31, 2010	December 31, 2009
	In NIS millions	
Operational risk	20	17

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 8.

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

Significant Accounting Policies

The financial statements of the Company are prepared in accordance with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks, the main points of which are described in Note 1 to the Financial Statements, in the section concerning the implementation of accounting principles. When preparing the financial statements, the Management of the Company uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Company.

Some of these estimates and evaluations involve uncertainty, and may be affected by possible future changes.

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

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

Provision for Gift Campaigns (Loyalty Programs) for Credit-Card Holders

The provision made in the books represents a provision at a rate of approximately 85% of the balance of unutilized points as of the end of 2010.

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

1. The economic estimate used to calculate the provision for the loyalty program was changed, subsequent to the application of methodology at the sister company Isracard according to which, in a long-term program, a provision should be made for 85% of the balance of accumulated unutilized points as of the balance-sheet date.

2. Price of points – based on the actual average cost per point as of the end of the year.

Points inventory and movements:

	December 31	
	2010	**2009**
	In thousands of points	
Opening balance	458,236	403,446
Points created	153,393	151,982
Points used	(84,231)	(80,778)
Points cancelled	(19,459)	(16,414)
Closing balance	**507,939**	**458,236**

The provision made in the books in respect of unutilized points as of December 31, 2010 is in the amount of NIS 38 million.

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

	Change in expected rate of use	Change in price per point
	NIS thousands	
Immediate increase of 1%	446	379
Immediate decrease of 1%	(446)	(379)

Provision for Doubtful Debts

The financial statements include specific provisions for doubtful debts. In addition, a provision on a group basis is included. The specific provisions fairly reflect, according to the assessment by Management, the loss inherent in debts 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. The provision for doubtful debts on a group basis is calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision.

Liabilities for Employee Rights

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

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

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

Discussion of Risk Factors

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

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

Risk factor		Brief description	Effect
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
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. See also "Dependence on Isracard," below.	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

Risk factor		Brief description	Effect
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, among other things, in the loss of customers or reduction of customers' activity volumes, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
8.	Regulation and legislation	Present or future risk to the Company's 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 effect on the Company's activity and results, among other things.	Medium

Risk factor		Brief description	Effect
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 American Express Organization could materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the member companies of the Company and/or of Bank Hapoalim could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium
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 administers 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 Chairman of the Board of Directors.

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

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

The Chief 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 – 64 audit days were invested directly at the Company in 2010. In addition, activities outsourced by the Company to its sister company Isracard Ltd. are audited within the internal audit at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

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

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

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

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

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

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

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

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

The Board of Directors

Twelve meetings of the Board of Directors and eleven 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 two.

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

Members of the Board

Irit Izakson

Acting Chairperson of the Board of the Company as of December 2008.

Also serves as Acting Chairperson of Isracard, Europay, and Aminit, and as Chairperson of the Credit Committee of the Board of Directors of Isracard.

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 the Van Leer Jerusalem Institute.

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

In the last five years, or during part of that period, served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., Koor Industries

Ltd., Mehadrin Ltd., Meshulem Levinstein Ltd., Eurocom Communications Ltd., and Nisko Industries Ltd. (external director), and as a member of the Public Council of the Drug Fund established by the Israel Corp. Ltd. Group (which has ceased operations); however, she no longer serves at these companies.

MSc. in Operational Research, School of Business Administration, Tel Aviv University.

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Avi Idelson

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

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

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

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

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

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.

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.

Jacky Wakim

Head of the Finance Administration of the City of Haifa.

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.

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: Isracard, Europay, Aminit, Mifal Hapayis, Local Government Economic Services Insurance Agency (1992) Ltd., and Local Government Economic Services Ltd.

Member of the audit committee and the IT committee of the Board of Directors of Isracard; member of the audit committees of the boards of directors of Europay and of Aminit.

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

M.B.A., Thames Valley University.

B.A. in Economics and Accounting, Haifa University.

L.L.B., Ono Academic College.

C.P.A.

Director with accounting and financial expertise.

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

Ofer Levy

Member of the Board of Management of Bank Hapoalim B.M. as of May 1, 2006.

Deputy CEO and Chief Accountant at Bank Hapoalim B.M.

Served as Head of Comptrolling at Bank Hapoalim B.M. for ten years, until April 2006.

Member of the Board of Directors of the Company as of September 13, 1995; member of the Audit Committee of the Board of Directors of the Company.

Also a member of the board of directors of the following companies: Hapoalim U.S.A. Holding Company Inc., AMI Trustees Ltd., Yefet Nominees Ltd.

Served as a director at the following companies: Bank Massad Ltd., Bank Yahav for Government Employees Ltd., Hapoalim Hanpakot Ltd., Mitar Hevra Lehanpakot Ltd., Hapoalim American Israeli Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Agam Hevra Finansit Ltd., Atad Hevra Lehashkaot Ltd., Maritime Poalim Nihul Ltd., Maritime Nyarot Erech Ltd., Maritime Hevra Finansit Ltd., Maritime - Investments Ltd., Einat (Nechasim) Ltd., Poalim Venture Services (Israel) Ltd., Kadima Poalim Hevra Finansit Ltd., Investment Company of Continental Ltd., Poalim Self Service Ltd., Otsar Bavel Ltd., BAMI Nechasim Ltd., Bitan - Investments and Mortgages Co. Ltd., Mivnim Vetsiud Ltd., Nichsei Bavel Ltd., Maritime Nechasim Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., Ramchal Poalim Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd., Tmura Hevra Finansit Ltd., Teuda Hevra Finansit Ltd., Opaz Ltd., Bitzur Ltd., Hapoalim Nechasim (Menayot) Ltd., Zohar Hashemesh Lehashkaot Ltd., Poalim Betevuona Ltd., Bannad Hevra LeHashkaot Ltd., Shirion Hevra LeHashkaot Ltd., Tuval Hevra LeHashkaot Ltd., Avuka Hevra le Hashkaot Ltd., Poalit Ltd., B.H. Financial Services USA Inc., B.H.R.I. Inc., B.H. Equity Inc., Maritime Capital Markets Ltd., Peled Hevra Lehashkaot Ltd., Kama Keren Hishtalmut Ltd., Hapoalim (Holdings) Ltd., Hermesh Hevra Lehashkaot Ltd., Nominees Company for the Maritime Bank of Israel Ltd., Continental Commercial Corporation Ltd., Yatir Hevra Lehashkaot Ltd., and Financing and Mortgages Ltd.; however, he no longer serves at these companies.

C.P.A.

B.A. in Accounting and Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Shmuel Lachman

Member of the Board of Directors of the Company 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, Aminit, S.I.R.N. (2002) of the Association for the

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

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

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

Chairman of the IT committee of the board of directors of Isracard.

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, and CFO of the Bank as of April 16, 2009.

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

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

Member of the board of directors of the following companies: Isracard, Europay, Aminit, 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 CFO 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.
Rafi Rafael	Hanegev Region Manager, Bank Hapoalim B.M. Member of the Board of Directors of the Company as of May 25, 1998. Served as Manager of Shaul Hamelech Branch, Bank Hapoalim B.M. Also served as Central Region Operations Manager, Bank Hapoalim B.M. 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. R. Rafael, 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. Also a member of the board of directors and chairman of the audit committee of the board of directors of Aminit Ltd.; 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 Ltd., 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 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 Ltd., Europay, and Aminit.

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.

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

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

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

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

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

As part of the implementation of the directives of Section 404, in 2009, the Company, with the assistance of a consulting firm, mapped and documented all material work processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies. In addition, in accordance with the requirements, the Company carried out a test of the effectiveness of the procedures for internal control of financial reporting, through an examination of the main controls in practice.

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

Internal Control of Financial Reporting

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

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	400	364
For audit-related services(4):		
Joint auditors	-	6
For tax services(5):		
Joint auditors	*-	*-
For other services(6):		
Joint auditors	9	-
Total remuneration of auditors	**409**	**370**

(1) Report by the Board of Directors to the annual general meeting 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) Audit-related fees – mainly includes guidance in the adjustment of the format of the financial statements to the Public Reporting Directives of the Bank of Israel.

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

(6) Mainly includes routine processes.

* Amount lower than NIS 1 thousand.

** Reclassified.

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

Tel Aviv, February 28, 2011

Poalim Express 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	205	195	189	140	119
Debtors in respect of credit-card activity	1,484	1,234	1,066	992	839
Computers and equipment	1	1	1	1	1
Other assets	89	4	5	4	6
Total assets	**1,779**	**1,434**	**1,261**	**1,137**	**965**
Liabilities					
Credit from banking corporations	2	6	2	*-	3
Creditors in respect of credit-card activity	1,562	1,305	1,179	1,079	919
Subordinated notes	56	25	-	-	-
Other liabilities	16	12	17	13	12
Total liabilities	**1,636**	**1,348**	**1,198**	**1,092**	**934**
Shareholders' equity	143	86	63	45	31
Total liabilities and capital	**1,779**	**1,434**	**1,261**	**1,137**	**965**

* Amount lower than NIS 0.5 million.

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	223	193	**182	**159	**138
Profit (loss) from financing activity before provision for doubtful debts	1	*-	(1)	*-	3
Other income	1	1	1	-	*-
Total income	**225**	**194**	**182**	**159**	**141**
Expenses					
Provision for doubtful debts	1	2	2	*-	2
Operating expenses	74	58	**52	**47	**42
Sales and marketing expenses	47	30	35	31	24
General and administrative expenses	19	18	15	14	13
Payments to banks	54	55	53	47	42
Total expenses	**195**	**163**	**157**	**139**	**123**
Operating profit before taxes	**30**	**31**	**25**	**20**	**18**
Provision for taxes on operating profit	8	8	7	6	6
Net profit	**22**	**23**	**18**	**14**	**12**
Basic and diluted net profit per common share (in NIS)	**168**	**224**	**180**	**140**	**120**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1U to the Financial Statements.

Rates of Income and Expenses

Addendum 3

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	1,467	3	0.20
Total assets	**1,467**	**3**	**0.20**
Liabilities	1,317	(1)	(0.08)
Total liabilities	**1,317**	**(1)**	**(0.08)**
Interest-rate gap			**0.12**

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	7	-	-
Total assets	**7**	**-**	**-**
Liabilities	26	(1)	(3.85)
Total liabilities	**26**	**(1)**	**(3.85)**
Interest-rate gap			**(3.85)**

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start 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.)

Foreign Currency

	For the year ended December 31, 2010		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)(2)
	NIS millions		Percent
Assets	49	(*-)	-
Total assets	**49**	**(*-)**	**-**
Liabilities	34	(*-)	-
Total liabilities	**34**	**(*-)**	**-**
Interest-rate gap			**-**

(1) Based on balances at the start 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.)

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	1,523	3	0.2
Total assets	**1,523**	**3**	**0.2**
Monetary liabilities generating financing expenses	1,377	(2)	(0.15)
Total liabilities	**1,377**	**(2)**	**(0.15)**
Interest-rate gap			**0.05**
Profit from financing activity		**1**	

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start 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, 2010
	Average balance(1)
	NIS millions
Monetary assets generating financing income	1,523
Other monetary assets	4
Group provision for doubtful debts	-
Total assets	**1,527**
Monetary liabilities generating financing expenses	1,377
Other monetary liabilities	14
Total liabilities	**1,391**
Total surplus of monetary assets over monetary liabilities	136
Non-monetary assets	2
Non-monetary liabilities	16
Total capital means	**122**

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start 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
Assets	13	(*-)	-
Total assets	**13**	**(*-)**	**-**
Liabilities	9	(*-)	-
Total liabilities	**9**	**(*-)**	-
Interest-rate gap			-

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start 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.)

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	1,241	2	0.16
Total assets	**1,241**	**2**	**0.16**
Liabilities	1,174	(*-)	-
Total liabilities	**1,174**	(*-)	**-**
Interest-rate gap			**0.16**

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	7	-	-
Total assets	**7**	**-**	**-**
Liabilities	7	-	-
Total liabilities	**7**	**-**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Based on balances at the start 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.)

Foreign Currency

	For the year ended December 31, 2009		
	Average balance[(1)]	Financing income (expenses)	Rate of income (expenses)[(2)]
	NIS millions		Percent
Assets	34	(1)	(2.94)
Total assets	**34**	**(1)**	**(2.94)**
Liabilities	20	(1)	(5.00)
Total liabilities	**20**	**(1)**	**(5.00)**
Interest-rate gap			**(7.94)**

(1) Based on balances at the start 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.)

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(3)	1,282	1	0.08
Total assets	**1,282**	**1**	**0.08**
Monetary liabilities generating financing expenses	1,201	(1)	(0.08)
Total liabilities	**1,201**	**(1)**	**(0.08)**
Interest-rate gap			**-**
Profit from financing activity		*-	

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Based on balances at the start 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 losses from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009
	Average balance[1]
	NIS millions
Monetary assets generating financing income[2]	1,282
Other monetary assets	*-
Group provision for doubtful debts	(*-)
Total assets	**1,282**
Monetary liabilities generating financing expenses	1,201
Other monetary liabilities	14
Total liabilities	**1,215**
Total surplus of monetary assets over monetary liabilities	67
Non-monetary assets	5
Non-monetary liabilities	*-
Total capital means	**72**

* Amount lower than NIS 0.5 million.

** Reclassified.

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

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

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

Rates of Income and Expenses (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
Assets	9	(*-)	-
Total assets	**9**	**(*-)**	**-**
Liabilities	5	(*-)	-
Total liabilities	**5**	(*-)	-
Interest-rate gap			-

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start 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

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	1,063	292	289	58	-
Total fair value	**1,063**	**292**	**289**	**58**	**-**
Financial liabilities:					
Financial liabilities	859	355	287	56	-
Total fair value	**859**	**355**	**287**	**56**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	204	(63)	2	2	-
Cumulative exposure in the segment	204	141	143	145	145
Linked Israeli currency					
Financial assets:					
Financial assets	2	2	4	-	-
Total fair value	**2**	**2**	**4**	**-**	**-**
Financial liabilities:					
Financial liabilities	2	2	4	-	-
Total fair value	**2**	**2**	**4**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	*-	*-	*-	-	-
Cumulative exposure in the segment	*-	*-	*-	*-	*-

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	7	1,709	2.61	0.17
	-	**7**	**1,709**	**2.61**	**0.17**
	-	**1**	**1,558**	**2.56**	**0.19**
	-	1	1,558	2.56	0.19
	-	6	151		
	145	151	-		
	-	-	8	0.08	0.31
	-	**-**	**8**	**0.08**	**0.31**
	-	-	8	0.08	0.31
	-	**-**	**8**	**0.08**	**0.31**
	-	-	*-		
	*-	*-			

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	53	(2)	*-	-	-
Total fair value	**53**	**(2)**	***-**	**-**	**-**
Financial liabilities:					
Financial liabilities	42	2	*-	-	-
Total fair value	**42**	**2**	***-**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	11	(4)	*-	-	-
Cumulative exposure in the segment	11	7	7	7	7
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,118	292	293	58	-
Total fair value	**1,118**	**292**	**293**	**58**	**-**
Financial liabilities:					
Financial liabilities	903	359	291	56	-
Total fair value	**903**	**359**	**291**	**56**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	215	(67)	2	2	-
Cumulative exposure in the segment	215	148	150	152	152

* Amount lower than NIS 0.5 million.

Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
			In percent	In years
-	-	51	0.27	0.05
-	**-**	**51**	**0.27**	**0.05**
-	2	46	0.38	0.03
-	**2**	**46**	**0.38**	**0.03**
-	(2)	5		
7	5	-		
-	7	1,768	2.56	0.16
-	**7**	**1,768**	**2.56**	**0.16**
-	3	1,612	2.53	0.19
-	**3**	**1,612**	**2.53**	**0.19**
-	4	156		
152	156			

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	830	253	249	49	-
Total fair value	**830**	**253**	**249**	**49**	**-**
Financial liabilities:					
Financial liabilities	686	260	291	48	-
Total fair value	**686**	**260**	**291**	**48**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	144	(7)	(42)	1	-
Cumulative exposure in the segment	144	137	95	96	96
Linked Israeli currency					
Financial assets:					
Financial assets	4	1	1	-	-
Total fair value	**4**	**1**	**1**	**-**	**-**
Financial liabilities:					
Financial liabilities	2	2	3	3	2
Total fair value	**2**	**2**	**3**	**3**	**2**
Financial instruments, net					
Exposure to changes in interest rates in the segment	2	(1)	(2)	(3)	(2)
Cumulative exposure in the segment	2	1	(1)	(4)	(6)

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	1,381	1.29	0.18
	-	**-**	**1,381**	**1.29**	**0.18**
	-	**2**	**1,287**	**1.29**	**0.21**
	-	2	1,287	1.29	0.21
	-	(2)	94		
	96				
	-	-	6	1.29	0.21
	-	**-**	**6**	**1.29**	**0.21**
	24	-	36	2.32	6.78
	24	**-**	**36**	**2.32**	**6.78**
	(24)	-	(30)		
	(30)				

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	33	2	3	1	-
Total fair value	**33**	**2**	**3**	**1**	**-**
Financial liabilities:					
Financial liabilities	11	4	4	1	-
Total fair value	**11**	**4**	**4**	**1**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	22	(2)	(1)	-	-
Cumulative exposure in the segment	22	20	19	19	19
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	867	256	253	50	-
Total fair value	**867**	**256**	**253**	**50**	**-**
Financial liabilities:					
Financial liabilities	699	266	298	52	2
Total fair value	**699**	**266**	**298**	**52**	**2**
Financial instruments, net					
Exposure to changes in interest rates in the segment	168	(10)	(45)	(2)	(2)
Cumulative exposure in the segment	168	158	113	111	109

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	39	1.29	0.07
	-	**-**	**39**	**1.29**	**0.07**
	-	4	24	1.29	0.19
	-	**4**	**24**	**1.29**	**0.19**
	-	(4)	15		
	19				
	-	-	1,426	1.29	0.17
	-	**-**	**1,426**	**1.29**	**0.17**
	24	6	1,347	1.78	0.38
	24	**6**	**1,347**	**1.78**	**0.38**
	(24)	(6)	79		
	85				

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	205	161	165	244
Debtors in respect of credit-card activity	1,484	1,314	1,259	1,248
Computers and equipment	1	1	1	1
Other assets	89	139	97	4
Total assets	**1,779**	**1,615**	**1,522**	**1,497**
Liabilities				
Credit from banking corporations	2	2	3	2
Creditors in respect of credit-card activity	1,562	1,403	1,348	1,320
Subordinated notes	56	56	26	25
Other liabilities	16	17	15	24
Total liabilities	**1,636**	**1,478**	**1,392**	**1,371**
Shareholders' equity	143	137	130	126
Total liabilities and capital	**1,779**	**1,615**	**1,522**	**1,497**

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	195	127	110	173
Debtors in respect of credit-card activity	1,234	1,168	1,122	1,068
Securities	-	25	51	-
Computers and equipment	1	1	1	1
Other assets	4	5	5	6
Total assets	**1,434**	**1,326**	**1,289**	**1,248**
Liabilities				
Credit from banking corporations	6	3	2	10
Creditors in respect of credit-card activity	1,305	1,229	1,202	1,155
Subordinated notes	25	-	-	-
Other liabilities	12	17	14	16
Total liabilities	**1,348**	**1,249**	**1,218**	**1,181**
Shareholders' equity	86	77	71	67
Total liabilities and capital	**1,434**	**1,326**	**1,289**	**1,248**

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	60	59	54	**50
Profit from financing activity before provision for doubtful debts	*-	1	(*-)	*-
Other income	*-	1	*-	*-
Total income	**60**	**61**	**54**	**50**
Expenses				
Provision for doubtful debts	(3)	1	2	1
Operating expenses	21	20	17	**16
Sales and marketing expenses	17	9	11	10
General and administrative expenses	5	5	5	4
Payments to banks	12	17	13	12
Total expenses	**52**	**52**	**48**	**43**
Operating profit before taxes	**8**	**9**	**6**	**7**
Provision for taxes on operating profit	2	2	2	2
Net profit	**6**	**7**	**4**	**5**
Basic and diluted net profit per common share (in NIS)	**43**	**50**	**34**	**47**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1U to the Financial Statements.

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	53	52	45	**43
Profit from financing activity before provision for doubtful debts	*-	*-	(*-)	*-
Other income	-	-	1	-
Total income	**53**	**52**	**46**	**43**
Expenses				
Provision for doubtful debts	(*-)	*-	1	1
Operating expenses	14	15	15	**14
Sales and marketing expenses	5	9	8	8
General and administrative expenses	5	5	4	4
Payments to banks	17	15	12	11
Total expenses	**41**	**44**	**40**	**38**
Operating profit before taxes	**12**	**8**	**6**	**5**
Provision for taxes on operating profit	3	2	2	1
Net profit	**9**	**6**	**4**	**4**
Basic and diluted net profit per common share (in NIS)	**90**	**65**	**43**	*****36**

* Amount lower than NIS 0.5 million.

** Reclassified.

*** Restated.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Poalim Express 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 Poalim Express 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 Poalim Express 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 133. 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

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2010

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Somekh Chaikin

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

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

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

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

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

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

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

Tel Aviv, February 28, 2011

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Somekh Chaikin

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

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

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

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

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

Ziv Haft

Certified Public Accountants (ISR)

Somekh Chaikin

Certified Public Accountants (ISR)

Tel Aviv, February 28, 2011

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2010	2009
Assets			
Cash on hand and deposits with banks	3	205	195
Debtors in respect of credit-card activity	4, 5, 6	1,484	1,234
Computers and equipment	7	1	1
Other assets	8	89	4
Total assets		**1,779**	**1,434**
Liabilities			
Credit from banking corporations	9	2	6
Creditors in respect of credit-card activity	10	1,562	1,305
Subordinated notes	11	56	25
Other liabilities	12	16	12
Total liabilities		**1,636**	**1,348**
Contingent liabilities and special agreements	17		
Shareholders' equity	13	143	86
Total liabilities and capital		**1,779**	**1,434**

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

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

Tel Aviv, February 28, 2011

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2010	2009	2008
Income				
From credit-card transactions	20	223	193	**182
Profit (loss) from financing activity before provision for doubtful debts	21	1	*-	(1)
Others		1	1	1
Total income		**225**	**194**	**182**
Expenses				
Provision for doubtful debts	5	1	2	2
Operating expenses	22	74	58	**52
Sales and marketing expenses	23	47	30	35
General and administrative expenses	24	19	18	15
Payments to banks	17F	54	55	53
Total expenses		**195**	**163**	**157**
Operating profit before taxes		**30**	**31**	**25**
Provision for taxes on operating profit	25	8	8	7
Net profit		**22**	**23**	**18**
Basic and diluted net profit per common share (in NIS)		**168**	**224**	**180**
Number of common shares used in calculation		132,772	100,000	100,000

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1U.

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	Capital reserves in respect of share-based payment transactions	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total shareholders' equity
Balance as of Dec. 31, 2007	***-**	**-**	***-**	***-**	**-**	**45**	**45**
Benefit for share-based payment transactions	-	-	*-	*-	-	-	*-
Net profit for the year	-	-	-	-	-	18	18
Balance as of Dec. 31, 2008	*-	-	*-	*-	-	63	63
Benefit for share-based payment transactions	-	-	*-	*-	-	-	*-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	*-	-	*-
Adjustments in respect of presentation of securities available for sale reclassified in statement of profit and loss	-	-	-	-	(*-)	-	(*-)
Net profit for the year	-	-	-	-	-	23	23
Balance as of Dec. 31, 2009	*-	-	*-	*-	-	86	86
Benefit for share-based payment transactions	-	-	*-	*-	-	-	*-
Share issuance	*-	35	-	35	-	-	35
Net profit for the year	-	-	-	-	-	22	22
Balance as of Dec. 31, 2010	***-**	**35**	***-**	**35**	**-**	**108**	**143**

* Amount lower than NIS 0.5 million.

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

Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	2009	2008
Cash flows from operating activity			
Net profit for the year	22	23	18
Adjustments required to present operating cash flows:			
Depreciation of computers and equipment	*-	*-	*-
Provision for doubtful debts	(1)	1	1
Profit from sale of securities available for sale	-	(*-)	-
Revaluation of notes	1	-	-
Deferred taxes, net	*-	*-	*-
Expenses in respect of share-based payment	*-	*-	*-
Decrease (increase) in other assets	(85)	1	(1)
(Decrease) increase in other liabilities	4	(5)	4
Net cash from operating activity	**(59)**	**20**	**22**
Cash flows for activity in assets			
Deposits with banks**	-	(*-)	-
Withdrawals of deposits from banks**	-	*-	-
Credit to cardholders and merchants, net	4	(25)	(4)
Increase in other debtors in respect of credit-card activity, net	(253)	(144)	(71)
Acquisition of securities available for sale	-	(76)	-
Proceeds of sale of securities available for sale	-	77	-
Acquisition of computers and equipment	(*-)	(1)	(*-)
Net cash for activity in assets	**(249)**	**(169)**	**(75)**
Cash flows from activity in liabilities			
Short-term credit from banking corporations, net	(4)	4	2
Increase in creditors in respect of credit-card activity	257	126	100
Issuance of subordinated notes	30	25	-
Issuance of share capital	35	-	-
Net cash from activity in liabilities	**318**	**155**	**102**
Increase in cash and cash equivalents	**10**	**6**	**49**
Balance of cash and cash equivalents at beginning of year	**195**	**189**	**140**
Balance of cash and cash equivalents at end of year	**205**	**195**	**189**

* Amount lower than NIS 0.5 million.

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

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

Note 1 – Reporting Rules and Significant Accounting Policies

A. General

1. Poalim Express Ltd. (hereinafter: the "**Company**") was established and incorporated in 1995 and is under the full ownership of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

   The Company issues and acquires transactions in American Express brand credit cards.

2. Isracard Ltd. (hereinafter: "**Isracard**"), a sister company, operates the Company's credit-card system on behalf of the Company. An agreement is in place between the Company and Isracard for that purpose, regularizing the manner of account settlement between the parties (see Note 17E).

3. The financial statements were prepared in accordance with the 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 – Poalim Express 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.

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

B. Definitions (cont.)

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

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

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

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

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

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 27 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 realizable value or the current economic value; they reflect only the reported amounts of those assets.

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

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

D. Functional Currency and Presentation Currency

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

E. Reporting Principles

1. Balance sheets

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

   (B) Monetary items are presented in the balance sheet in 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 was determined.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

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.

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

G. Use of Estimates (cont.)

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

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

H. Statement of Cash Flows

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

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

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.

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.

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

L. Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (cont.)

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.

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.

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

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

N. Provision for Gift Campaigns (Loyalty Programs) for Credit-Card Holders

The financial statements include a provision for the loyalty program for cardholders. The provision made in the books represents a provision at a rate of approximately 85% of the balance of unused points as of the end of 2010.

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

1. The economic estimate used to calculate the provision for the loyalty program was changed, subsequent to the application of methodology at the sister company Isracard according to which, in a long-term program, a provision should be made for 85% of the balance of accumulated unutilized points as of the balance-sheet date.

2. Price of points – based on the actual average cost per point as of the end of the year.

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

O. 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.

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.

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

P. Impairment of Non-Financial Assets

The Company implements Accounting Standard No. 15, “Impairment of Assets” (hereinafter: the “**Standard**”). The Standard stipulates 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 at an amount in excess of their recoverable amount, which is the higher of the net selling price and the usage value (the present value of the estimated future cash flows expected to derive from the use and realization 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 of the asset and its recoverable amount. A loss recognized in the aforesaid manner shall be cancelled only if changes have occurred in the estimates used to determine the recoverable amount of the asset since the date on which the last loss from impairment was recognized.

Q. Taxes on Income

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

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

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

The main factor for which no deferred taxes were calculated is a tax benefit receivable in respect of timing differences, where the possibility of exercising the benefit is in doubt.

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

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

R. Share-Based Payment Transactions

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

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

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

S. Employee Rights

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

Severance-pay and pension liabilities are mostly covered by amounts funded deposited with provident funds for pension allowances and severance pay and with senior employees' insurance policies. A provision is included in the financial statements in respect of amounts of liabilities not covered in the aforesaid manner. See Note 14 to the Financial Statements.

T. Contingent Liabilities

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

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

T. Contingent Liabilities (cont.)

1. Probable risk – the probability of materialization of the exposure to risk is over 70%. Provisions are included in the financial statements with respect to claims in this risk group.

2. Reasonably possible risk – the probability of materialization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group; only disclosure is given.

3. Remote risk – the probability of materialization of the exposure to risk is under 20%. No provision was included in the financial statements in respect of claims in this risk group, and no disclosure is given.

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

U. Revenue Recognition

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

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

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

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

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

U. Revenue Recognition (cont.)

	Income from credit-card transactions		Operating expenses	
	For the year ended Dec. 31, 2009	For the year ended Dec. 31, 2008	For the year ended Dec. 31, 2009	For the year ended Dec. 31, 2008
	NIS millions			
	Audited		Audited	
Total income/expenses allocated to the statement of profit and loss before the change	220	212	85	82
Effect of the change	27	30	27	30
Total income/expenses allocated to the statement of profit and loss after the change	193	182	58	52

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

3. Income from card fees, operating fees, and deferred-debit fees collected from cardholders are included in the statement of profit and loss on a cumulative basis. (The collection of operating fees ceased as of July 2008, pursuant to an amendment to the Banking Law (Customer Service)).

4. Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears; such interest is allocated to the statement of profit and loss based on actual collection.

V. Earnings Per Share

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

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

W. 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 26.

X. 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.

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

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

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

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

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

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

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

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.

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

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

- 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.

Y. 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.

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

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

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

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

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

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

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

(3) IAS 33, Earnings Per Share;

(4) IFRS 2, Share-Based Payment;

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

(6) IAS 34, Interim Financial Reporting;

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

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

(9) IAS 28, Investments in Associates;

(10) IAS 36, Impairment of Assets;

(11) IAS 17, Leases;

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

(13) IAS 40, Investment Property.

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

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

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

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

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

(17) IAS 31, Interests In Joint Ventures;

(18) IAS 38, Intangible Assets.

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

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

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

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

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

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

(A) IFRS 2, Share-Based Payment

Equity grants performed after November 7, 2002 and before March 15, 2005 are treated retroactively in accordance with the aforesaid standard. The initial implementation of the standard is not expected to have a material effect.

(B) IFRS 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.)

Y. 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 10 million. Deferred taxes will increase by NIS 1 million, so that the balance of retained earnings will decrease by NIS 9 million. The directive issued by the Supervisor of Banks on February 18, 2010 concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses requires the presentation of a pro-forma note detailing the effect of the new directives on the principal balance-sheet items in the consolidated statements as of December 31, 2010, provided that the directives were implemented as of that date. For details regarding the manner of implementation and the expected effect of the new directives, see Note 2 below.

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.

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

Y. 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 this 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.)

Y. 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.

- 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

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

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

reclassified from cumulative other comprehensive profit, and to the amount of unrealized profits and losses not previously recognized. The choice of the fair value option for an existing security held to maturity at the initial adoption shall not cast doubt on the banking corporation or credit-card company's intention to hold other bonds to maturity in the future.

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

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

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

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."

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

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

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).

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.)

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.

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	108
Cumulative effect net of tax of initial implementation of the new directives as of December 31, 2010	(9)
Of which:	
Change in provision for credit losses	(10)
Related tax effect	1
Balance of retained earnings as of December 31, 2010 under the new directives	**99**

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	1,492
Effect of initial implementation as of December 31, 2010 of the new directives:	
Net accounting write-offs recognized as of December 31, 2010	(10)
Balance of credit to the public (before deduction of credit loss provisions) as of December 31, 2010, under the new directives	**1,482**

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

Reported amounts

In NIS millions

Audited

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

	Provision for credit losses		
		On a group basis*	
	Individual	Other	Total
Balance of provision for credit losses as of December 31, 2010 included in the financial statements	7	1	8
Effect of initial implementation of the new directives:			
Net accounting write-offs recognized as of December 31, 2010**	***-	(10)	(10)
Other changes in the provision for credit losses as of December 31, 2010 (allocated to shareholders' equity)	(5)	15	10
Balance of provision for credit losses as of December 31, 2010, according to the new directives	**2**	**6**	**8**

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

** Including principal and interest.

*** Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

Audited

Table 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	2
Effect of initial implementation as of December 31, 2010 of the new directives	1
Balance of other assets in respect of net deferred taxes receivable as of December 31, 2010 according to the new directives	**3**

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*	10	2	8
Credit to the public examined on a group basis**	1,472	4	1,468
Total credit to the public	**1,482**	**6**	**1,476**

* 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.

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

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*	2	2	-
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**	8	***-	8
Total unimpaired credit to the public**	8	***-	8
Total individually examined credit to the public	**10**	**2**	**8**

Additional information regarding impaired credit to the public examined individually

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

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

*** Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

Audited

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

Additional information regarding impaired credit to the public examined individually:

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

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

	December 31, 2010		
	Recorded debt balance	**Provision for credit losses**	**Net debt balance**
Credit not accruing interest income	2	2	-
Accruing interest income, in arrears of 90 days or more	-	-	-
Accruing interest income, in arrears of 30 to 89 days	-	-	-
Accruing interest income	-	-	-
Total (included in impaired credit to the public)	**2**	**2**	**-**

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	1	**-	1
Unimpaired credit to the public, 30 to 89 days in arrears	3	1	2
Unimpaired credit to the public	1,468	3	1,465
Total	**1,472**	**4**	**1,468**

* 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 0.5 million.

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

	Provision for credit losses		
	Individual	On a group basis*	
		Other	Total
Composition of balance of provision as of December 31, 2010:			
In respect of credit to the public	2	4	6
In respect of debts other than credit to the public	-	**-	**-
In respect of off-balance-sheet items (included in the “other liabilities” item)	-	2	2

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

** Amount lower than NIS 0.5 million.

Note 3 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2010	2009
Cash on hand	7	4
Deposits with banks for an original term of up to 3 months	198	191
Total	**205**	**195**

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

	2010		December 31	
	Average annual interest rate		2010	2009
	For daily balance	For transactions in the last month	NIS millions	
	%	%		
Debtors in respect of credit cards (1) (2)	-	-	1,434	1,187
Credit to merchants (3)	5.31	5.64	26	30
Total			**1,460**	**1,217**
Less: Provision for doubtful debts			(8)	(9)
Total debtors and credit to merchants			**1,452**	**1,208**
International credit-card organization			31	25
Income receivable			1	1
Others			*-	*-
Total debtors in respect of credit-card activity			**1,484**	**1,234**
(1) Of which, under the responsibility of banks			1,176	1,036

(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 25 million as of December 31, 2010 (December 31, 2009: NIS 28 million).

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	Specific provision**	Provision on group basis	Total
Balance of provision as of December 31, 2007	7	*-	7
Net provisions for 2008	1	*-	1
Balance of provision as of December 31, 2008	8	*-	8
Net provisions for 2009	1	*-	1
Balance of provision as of December 31, 2009	9	*-	9
Net provisions for 2010	(2)	1	(1)
Balance of provision as of December 31, 2010	**7**	**1**	**8**

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

* Amount lower than NIS 0.5 million.

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

(1) Bad debts in the amount of NIS 2 million were included in the statement of profit and loss (2009: NIS 1 million; 2008: NIS 1 million).

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

	December 31, 2010			
	Debtors in respect of credit-card activity			
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	177,761	246	243	9
Borrower balances over 5 and up to 10	50,271	304	290	61
Borrower balances over 10 and up to 15	22,883	201	183	84
Borrower balances over 15 and up to 20	17,230	130	106	178
Borrower balances over 20 and up to 30	27,093	171	113	510
Borrower balances over 30 and up to 40	23,640	124	58	732
Borrower balances over 40 and up to 80	10,602	138	87	377
Borrower balances over 80 and up to 150	962	47	36	49
Borrower balances over 150 and up to 300	216	24	18	21
Borrower balances over 300 and up to 600	74	20	15	11
Borrower balances over 600 and up to 1,200	14	9	6	4
Borrower balances over 1,200 and up to 2,000	5	6	6	4
Borrower balances over 4,000 and up to 8,000	5	23	6	-
Borrower balances over 8,000 and up to 20,000	1	9	9	-
Borrower balances over 20,000 and up to 40,000	1	31	-	-
Total	**330,758**	**1,483**	**1,176**	**2,040**
Income receivable and other debtors	-	1	-	-
Total	**330,758**	**1,484**	**1,176**	**2,040**

(1) After deducting specific provisions for doubtful debts.

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

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

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

	December 31, 2009			
	Debtors in respect of credit-card activity			
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Credit risk[3]
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	140,342	263	233	233
Borrower balances over 5 and up to 10	40,901	291	259	258
Borrower balances over 10 and up to 15	14,508	177	155	158
Borrower balances over 15 and up to 20	6,326	110	94	97
Borrower balances over 20 and up to 30	4,838	118	99	105
Borrower balances over 30 and up to 40	1,731	60	50	54
Borrower balances over 40 and up to 80	1,636	87	72	78
Borrower balances over 80 and up to 150	340	36	27	32
Borrower balances over 150 and up to 300	137	28	19	25
Borrower balances over 300 and up to 600	35	14	11	13
Borrower balances over 600 and up to 1,200	2	2	-	2
Borrower balances over 1,200 and up to 2,000	1	1	1	1
Borrower balances over 4,000 and up to 8,000	2	12	7	11
Borrower balances over 8,000 and up to 20,000	1	9	9	8
Borrower balances over 20,000 and up to 40,000	1	25	-	22
Total	210,801	1,233	1,036	1,097
Income receivable and other debtors	-	1	-	-
Total	**210,801**	**1,234**	**1,036**	**1,097**

(1) After deducting specific provisions for doubtful debts.

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

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

Note 7 – Computers and Equipment

Reported amounts

In NIS millions

	Computers and equipment	Furniture and office equipment	Software costs(1)	Total
Cost:				
As of December 31, 2009	7	*-	1	8
Additions	*-	-	*-	*-
As of December 31, 2010	7	*-	1	8
Accrued depreciation:				
As of December 31, 2009	6	*-	1	7
Additions	*-	*-	*-	*-
As of December 31, 2010	6	*-	1	7
Depreciated balance as of December 31, 2010	1	*-	*-	1
Depreciated balance as of December 31, 2009	1	*-	*-	1
Average weighted depreciation rate in 2010	21.5	8.3	25	
Average weighted deprecation rate in 2009	25.7	8.6	25	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

Note 8 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2010	**2009**
Deferred taxes receivable, net (see Note 25)	**2**	**2**
Other debtors and debit balances:		
Prepaid expenses	1	1
Related companies*	86	-
Others	-	1
Total other debtors and debit balances	**87**	**2**
Total other assets	**89**	**4**

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

Note 9 – Credit from Banking Corporations

Reported amounts

In NIS millions

	2010		December 31	
	Average annual interest rate		**2010**	**2009**
	For daily balance	**For transactions in the last month**		
	%	**%**		
Credit in current drawing accounts	**1.95**	**1.85**	**2**	**6**

Note 10 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2010	2009
Merchants [1]	1,506	1,252
Prepaid income	*-	*-
Provision for loyalty program	40	30
Expenses payable	1	3
Others	15	20
Total creditors in respect of credit-card activity	**1,562**	**1,305**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 55 million as of December 31, 2010 (Dec. 31, 2009: NIS 30 million).

* Amount lower than NIS 0.5 million.

Note 11 – Subordinated Notes

Reported amounts

In NIS millions

A. Item composition

	Average duration(1)	Internal rate of return(2)	December 31	
	%	%	2010	2009
	2010			
In Israeli currency				
CPI-linked	-	3.2	-	25
Unlinked	-	3.2	56	-

(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 25 million, for a period of ten years, were issued on December 31, 2009. The notes are linked to the consumer price index, bear annual interest of 4%, and mature on December 31, 2019. Pursuant to the resolution of the Board of Directors of the Company of July 28, 2010, the linkage terms of the notes were changed from CPI-linked bearing a fixed rate of interest to floating rate only. Additional subordinated notes in the amount of NIS 30 million were issued in September 2010.

Note 12 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2010	2009
Surplus current income-tax reserves over advances paid	1	1
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	2	1
Suppliers of services and equipment	2	3
Expenses payable	8	4
Institutions	2	2
Isracard Ltd. (a related party)	-	1
Others	1	*-
Total other creditors and credit balances	15	11
Total other liabilities	**16**	**12**

* Amount lower than NIS 0.5 million.

Note 13A – Shareholders' Equity

	Registered	Issued and paid-up
	December 31, 2010	
	In NIS	
Common shares of par value NIS 1 each	500,000	139,326

	Registered	Issued and paid-up
	December 31, 2009	
	In NIS	
Common shares of par value NIS 1 each	500,000	100,000

Note 13B – Capital Adequacy According to the Directives of the Supervisor of Banks(1)

Reported amounts

In NIS millions

	December 31, 2010	December 31, 2009
1. Capital for the calculation of the capital ratio		
	NIS millions	
Core capital	143	86
Tier I capital, after deductions*	143	86
Tier II capital, after deductions**	56	25
Total overall capital	**199**	**111**

* In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2010 its registered share capital increased by NIS 35 million, divided into 39,326 NIS 1 par value common shares, for a total consideration of NIS 890 per share (the total consideration was NIS 35 million).

** Subordinated notes included in lower Tier II capital shall not exceed 50% of the Tier I capital not allocated to market risks, 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
	NIS millions			
Credit risk	1,172	105	975	88
Market risks – foreign currency exchange rate risk	6	1	15	1
Operational risk	222	20	192	17
Total weighted balances of risk-adjusted assets	**1,400**	**126**	**1,182**	**106**

3. Ratio of capital to risk-adjusted assets

	December 31, 2010	December 31, 2009
	Percent	
Ratio of core capital to risk-adjusted assets	10.2	7.3
Ratio of tier I capital to risk-adjusted assets	10.2	7.3
Ratio of overall capital to risk-adjusted assets	14.2	9.4
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."

Note 13B – Capital Adequacy According to the Directives of the Supervisor of Banks[(1)] (cont.)

Reported amounts

In NIS millions

Capital Components for the Calculation of the Capital Ratio

	December 31, 2010	December 31, 2009
Tier I capital		
Shareholders' equity	143	86
Total tier I capital	**143**	**86**
Tier II capital		
Lower tier II capital		
Subordinated notes	56	25
Total tier II capital	**56**	**25**

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

* Amount lower than NIS 0.5 million.

Note 14 – Employee Rights

A. Retirement Compensation and Pensions

The pension rights of employees reaching retirement age are mainly covered by the amounts accrued in allowance-based provident funds, compensation funds, and senior employees' insurance policies, while the remainder of such rights is covered by a liability included in the financial statements. Retirement of an employee exempts the Company from the payment of severance compensation.

B. Bonuses

1. Under an agreement signed between Bank Hapoalim (hereinafter: the "**Bank**") and the Employees' Union of the Bank, some employees are entitled to an annual bonus. The annual bonus is determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus.

2. Some employees on loan from the Bank are entitled to a long-service grant at the end of 25 years of employment at the Company.

3. Some employees on loan from the Bank are entitled to compensation for unutilized sick days upon retirement.

The financial statements include appropriate provisions in respect of Sections (2) and (3) above, based on actuarial calculations, which include a real wage increment at a rate of 1% per year, and are capitalized at an annual discount rate of 4%. The Company employs employees on loan from the Bank, who as such are entitled to the aforesaid bonus. Based on the net return on equity of the Bank in 2009, the employees are not entitled to an annual bonus.

C. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The expense was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date was lower than NIS 0.5 million, similar to the provision at the end of 2009.

Note 14 – Employee Rights (cont.)

D. Retirement Program

The balance of the provision for retirement programs implemented in recent years amounts to NIS 1 million, similar to the provision at the end of 2009. The provision is based on actuarial calculations, including a real wage increment at a rate of 1% per year, and is capitalized at an annual discount rate of 4%.

The balance of non-pension post-retirement benefits is lower than NIS 0.5 million.

E. Options to Employees

1. In May 2004, the Board of Directors of the Bank approved an option allocation program for the Bank's employees for 2004-2009. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, will be allocated nontradable option notes, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Each portion of options will have a vesting period of four years from the beginning of the year in which the options were allocated, and will be exercisable for a period of one year after the end of the vesting period. The quantity of options distributed to each employee was determined according to the employee's seniority, job description, and rank. Up to and including 2010, 224,187 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

2. On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, will receive options to purchase shares of the Bank at a price of NIS 1 each, or phantom units which grant rights similar to options to purchase shares of the Bank at the aforesaid price. The said option notes will be allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program will be similar to those of the option plan for employees in 2004-2009. The option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

   The agreement states that options will be granted to employees provided that approval is obtained from the Supervisor of Banks for the purchase of the Bank's own shares by the Bank, in order to create a reserve to be used for the exercise of the aforesaid options.

Note 14 – Employee Rights (cont.)

F. Wage Agreement

1. On September 30, 2009, the Board of Directors of the Bank approved agreements between the Board of Management of the Bank and the employees' union of the Bank on various matters, including terms of wages and employment; the cancellation of indexation to the CPI of various benefits paid to the employees of the Bank, including during the post-retirement period; cancellation of the 40-year service grant; setting the 25-year service grant at one monthly salary, instead of two; and the waiver of five vacation days by the employees. In addition, the parties reached agreements regarding the securities-based compensation plan for the employees of the Bank.

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

Note 15 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2010					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	202	-	3	-	-	205
Debtors in respect of credit-card activity	1,427	8	47	2	-	1,484
Computers and equipment	-	-	-	-	1	1
Other assets	88	-	-	-	1	89
Total assets	**1,717**	**8**	**50**	**2**	**2**	**1,779**
Liabilities						
Credit from banking corporations	1	-	-	1	-	2
Creditors in respect of credit-card activity	1,495	8	44	-	15	1,562
Subordinated notes	56	-	-	-	-	56
Other liabilities	15	-	1	-	-	16
Total liabilities	**1,567**	**8**	**45**	**1**	**15**	**1,636**
Difference	**150**	***-**	**5**	**1**	**(13)**	**143**

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

Note 15 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	195	-	*-	-	-	195
Debtors in respect of credit-card activity	1,188	7	39	*-	-	1,234
Computers and equipment	-	-	-	-	1	1
Other assets	3	-	-	-	1	4
Total assets	**1,386**	**7**	**39**	*-	**2**	**1,434**
Liabilities						
Credit from banking corporations	*-	-	5	1	-	6
Creditors in respect of credit-card activity	1,279	7	19	-	*-	1,305
Subordinated notes	-	25	-	-	-	25
Other liabilities	12	-	(*-)	-	-	12
Total liabilities	**1,291**	**32**	**24**	**1**	*-	**1,348**
Difference	**95**	**(25)**	**15**	**(1)**	**2**	**86**

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

Note 16 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	**Over 1 month and up to 3 months**	**Over 3 months and up to 1 year**	**Over 1 year and up to 2 years**	**Over 2 years and up to 3 years**	**Over 3 years and up to 4 years**
Unlinked Israeli currency						
Assets	1,064	292	292	51	9	-
Liabilities	860	356	291	50	9	-
Difference	204	(64)	1	1	-	-
CPI-linked Israeli currency						
Assets	2	2	4	-	-	-
Liabilities	2	2	4	-	-	-
Difference	*-	*-	*-	-	-	-
Foreign currency(3)						
Assets	54	(2)	-	-	-	-
Liabilities	42	2	-	-	-	-
Difference	12	(4)	-	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	1,120	292	296	51	9	-
Liabilities	904	360	295	50	9	-
Difference	216	(68)	1	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 are presented net of provisions for doubtful debts.

(2) As included in Note 15, “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.

* Amount lower than NIS 0.5 million.

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

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	-	-	-	1,708	9	1,717	0%
-	-	-	-	1,566	1	1,567	0%
-	-	-	-	142	8	150	-
-	-	-	-	8	-	8	0%
-	-	-	-	8	-	8	0%
-	-	-	-	*-	-	*-	-
-	-	-	-	52	-	52	0%
-	-	-	-	44	2	46	0%
-	-	-	-	8	(2)	6	-
-	-	-	-	-	2	2	0%
-	-	-	-	-	15	15	0%
-	-	-	-	-	(13)	(13)	-
-	-	-	-	1,768	11	1,779	0%
-	-	-	-	1,618	18	1,636	0%
-	-	-	-	150	(7)	143	-

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

Reported amounts

In NIS millions

	December 31, 2009					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	830	253	251	42	8	-
Liabilities	686	260	294	41	8	*-
Difference	144	(7)	(43)	1	(*-)	(*-)
CPI-linked Israeli currency						
Assets	4	2	1	*-	*-	-
Liabilities	3	2	2	*-	*-	-
Difference	1	(*-)	(1)	(*-)	(*-)	-
Foreign currency(3)						
Assets	34	2	3	*-	*-	-
Liabilities	11	4	5	1	*-	-
Difference	23	(2)	(2)	(1)	(*-)	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	868	257	255	42	8	-
Liabilities	700	266	301	42	8	*-
Difference	168	(9)	(46)	*-	(*-)	(*-)

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

(2) As included in Note 15, “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.

* Amount lower than NIS 0.5 million.

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

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	-	-	-	1,384	2	1,386	0%
*-	*-	*-	*-	1,289	2	1,291	0%
(*-)	(*-)	(*-)	(*-)	95	*-	95	-
-	-	-	-	7	-	7	0%
-	25	-	-	32	*-	32	0%
-	(25)	-	-	(25)	(*-)	(25)	-
-	-	-	-	39	-	39	0%
-	-	-	-	21	4	25	0%
-	-	-	-	18	(4)	14	-
-	-	-	-	-	2	2	0%
-	-	-	-	-	*-	*-	0%
-	-	-	-	-	2	2	-
-	-	-	-	1,430	4	1,434	0%
*-	25	*-	*-	1,342	6	1,348	0%
(*-)	(25)	(*-)	(*-)	88	(2)	86	-

Note 17 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2010	2009
	Reported amounts in NIS millions	
Unutilized credit-card credit lines:		
Credit risk on the Company	2,040	1,098
Credit risk on banks	5,823	7,426

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

B. Antitrust Issues and Recommendations for 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.

Note 17 – Contingent Liabilities and Special Agreements (cont.)

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

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

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

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

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

Note 17 – Contingent Liabilities and Special Agreements (cont.)

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

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

10. In July 2010, the Fuel Industry Law (Promotion of Competition) was amended, with regard to the promotion of competition in the area of automatic refueling. The amendment authorizes the Minister of National Infrastructures to enact regulations with the aim of promoting competition. This amendment may have a bearing on the Company due to the fact that the Company issues refueling devices and cards that constitute "charge cards" pursuant to the Charge Cards Law, 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 17 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Recommendations for 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.

C. Legal Proceedings

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

Note 17 – Contingent Liabilities and Special Agreements (cont.)

D. Indemnification of Directors

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

E. Agreement with Isracard

The Company has an agreement with Isracard for the operation of the Company's activity in issuing credit cards and acquiring in Israel of transactions executed with merchants using American Express cards. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's activity in the operation of this arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties (see Note 24).

F. Contractual Engagements with Banking Corporations

The Company has entered into agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim B.M. (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., First International Bank of Israel Ltd., Mizrahi-Tefahot Bank, and Jerusalem Bank Ltd. (jointly, the "**Banks Under Arrangement**"). With regard to the agreement with Union Bank Ltd., see Note 28. The agreements with Bank Yahav for Government Employees Ltd. were updated during 2010, with immaterial changes.

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 damage caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. Pursuant to the agreements, the Banks Under Arrangement are entitled to payments according to a formula established in the agreements.

Note 17 – Contingent Liabilities and Special Agreements (cont.)

G. Extension of the Agreement with American Express Ltd.

In September 2005, an agreement was signed between the Company and American Express Ltd. extending the term of the Independent Operator Agreement signed between the parties in 1995 until December 31, 2009. The Company has a memorandum of understanding with the global American Express company regarding the extension of the contractual engagement between the companies for a period of seven additional years, until December 31, 2016. Under this agreement, the Company continues to use the concession for the issuance and acquiring of American Express credit cards.

H. Contractual Engagement with the Hever Club

In January 2009, Hever Career Military Personnel and Retirees Ltd. and Hever Consumer Club Ltd. (jointly: the "**Hever Club**") entered into an agreement with the Company, Isracard, and Europay for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). In March 2009, the Company, Isracard, and Europay began marketing the card to the members of the Hever Club. The term of the Hever Agreement is six years from the aforesaid execution date, and may be extended in accordance with its terms. In addition, arrangements were formulated with regard to the termination of prior contractual engagements, including the required adjustments in the relationships between the relevant parties. Pursuant to the Hever Agreement, among other matters, Isracard will extend credit for the Hever Credit Cards. The Hever Agreement also regularizes various matters pertaining to the cards, including arrangements for payment and account settlement between the parties, the process of issuing the new cards, operational matters, benefits and rights of Hever Club members, and marketing.

Note 18 – Fair Value of Financial Instruments

A. General

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the Company's financial instruments, because no active market exists in which they are traded. In view of the foregoing, the fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

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 18 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. 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	205	-	205	205	195	-	195	195
Debtors in respect of credit-card activity	-	1,485	1,485	1,477	-	1,234	1,234	1,231
Other financial assets	-	86	86	86	-	*-	*-	*-
Total financial assets	**205**	**1,571**	**1,776**	**1,768**	**195**	**1,234**	**1,429**	**1,426**
Financial liabilities:								
Credit from banking corporations	2	-	2	2	6	-	6	6
Creditors in respect of credit-card activity	-	1,547	1,547	1,539	-	1,305	1,305	1,301
Subordinated notes	-	56	56	56	-	25	25	29
Other financial liabilities	-	15	15	15	-	11	11	11
Total financial liabilities	**2**	**1,618**	**1,620**	**1,612**	**6**	**1,341**	**1,347**	**1,347**

(1) Financial instruments presented in the balance sheet at market value.

(2) Other financial instruments.

* Amount lower than NIS 0.5 million.

Note 19 – 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	205	313	-	-
Debtors in respect of credit-card activity[(1)]	*-	*-	*-	*-
Other assets	1	1	85	134
Liabilities				
Credit from banking corporations	2	4	-	-
Creditors in respect of credit-card activity	10	16	80	80
Other liabilities	-	*-	*-	12
Subordinated notes	56	56	-	-
Shares (included in shareholders' equity)	*-	*-	-	-
Credit risk and off-balance-sheet financial instruments	4,227	4,227	-	-
Guarantees given by banks	768	768	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Amount lower than NIS 0.5 million.

Note 19 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

A. Balances

	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	195	195	-	-
Debtors in respect of credit-card activity(1)	*-	*-	*-	*-
Other assets	1	1	*-	*-
Liabilities				
Credit from banking corporations	6	10	-	-
Creditors in respect of credit-card activity	13	13	67	68
Other liabilities	-	-	1	5
Shares (included in shareholders' equity)	*-	*-		
Credit risk and off-balance-sheet financial instruments	4,735	4,735	-	-
Guarantees given by banks	653	653	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Amount lower than NIS 0.5 million.

Note 19 – 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	2	*-
Profit (loss) from financing activity before provision for doubtful debts	(3)	1
General and administrative expenses	-	(13)
Payments to banks[(1)]	(36)	-
Total	**(37)**	**(12)**

	For the year ended December 31, 2009	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	1	-
Profit from financing activity before provision for doubtful debts	(*-)	-
General and administrative expenses	-	(11)
Payments to banks[(1)]	(38)	-
Total	**(37)**	**(11)**

(1) See Note 17F.

* Amount lower than NIS 0.5 million.

Note 19 – Interested and Related Parties (cont.)

C. Interested and Related Parties

See Note 17E regarding the contractual engagement with Isracard, and see Note 17F regarding contractual engagements with banking corporations.

D. Indemnification Letter from Bank Hapoalim B.M.

Bank Hapoalim B.M. has provided an indemnification letter for certain assets of the Company, in order for the Company to comply with the terms of the limits of the minimum capital ratio, in accordance with the Basel II directives. The indemnification letter is in effect as of December 31, 2009.

Note 20 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Income from merchants:			
Merchant fees	210	185	177
Others	1	1	*-
Total gross income from merchants	211	186	177
Less fees to other issuers	23	**27	**30
Total net income from merchants	188	159	147
Income in respect of credit-card holders:			
Issuer fees	8	9	8
Service fees	20	18	21
Fees from transactions abroad	7	7	6
Total income in respect of credit-card holders	**35**	**34**	**35**
Total income from credit-card transactions	**223**	**193**	**182**

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 1U.

Note 21 – 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	1	1	*-
From debtors in respect of credit cards	*-	*-	*-
From deposits with banks	1	1	4
From bonds (see also Section D below)	-	*-	-
From other assets	1	*-	-
Total in respect of assets	3	2	4
B. Financing expenses in respect of liabilities:			
To banking corporations	(*-)	(1)	(*-)
On other liabilities	-	(*-)	*-
On subordinated notes	(2)	-	-
Total in respect of liabilities	(2)	(1)	(*-)
C. Other:			
Other financing expenses	(*-)	(1)	(5)
Total profit (loss) from financing activity before provision for doubtful debts [(1)]	**1**	***-**	**(1)**
(1) Of which: exchange-rate differences, net	(*-)	(1)	(5)
D. Details of results of operations in investments in bonds			
Financing income on an accrual basis from bonds:			
Available for sale	-	*-	-
Total included in profit from financing activity in assets	-	*-	-
Profits from sale of bonds available for sale	-	*-	-

* Amount lower than NIS 0.5 million.

Note 22 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Wages and related expenses	16	13	13
Data processing and computer maintenance	10	7	5
Automatic Bank Services (ABS)	1	1	2
Royalties to the international organization	28	19	16
Operating expenses for incoming and outgoing tourism	*-	**-	**-
Amortization and depreciation	*-	*-	*-
Communications	1	1	1
Production and delivery	12	12	11
Damages from abuse of credit cards	1	1	1
Rent and building maintenance	3	3	3
Others	2	1	*-
Total operating expenses	**74**	**58**	**52**

* Amount lower than NIS 0.5 million.

(1) Reclassified; see Note 1U.

Note 23 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Wages and related expenses	10	7	8
Advertising	5	3	6
Customer retention and recruitment	9	7	8
Gift campaigns for credit-card holders	21	11	10
Travel insurance for credit-card holders	-	*-	*-
Others	2	2	3
Total sales and marketing expenses	**47**	**30**	**35**

* Amount lower than NIS 0.5 million.

Note 24 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2010	**2009**	**2008**
Wages and related expenses	3	3	2
Insurance	1	1	1
Payments to Isracard (1)	13	11	11
Others	2	3	1
Total general and administrative expenses	**19**	**18**	**15**

(1) See Note 17E.

Note 25 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31		
	2010	**2009**	**2008**
Current taxes for the accounting year	7	8	7
Current taxes for past years	(*-)	*-	-
Deferred taxes for the accounting year	1	(*-)	*-
Provision for taxes on income	**8**	**8**	**7**

* Amount lower than NIS 0.5 million.

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

	For the year ended December 31		
	2010	**2009**	**2008**
Tax rate applicable to the Company in Israel	25%	26%	27%
Tax amount based on statutory rate	8	8	7
Provision for taxes on income	**8**	**8**	**7**

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:

	Deferred taxes receivable	
	For the year ended December 31	
	2010	**2009**
From specific provision for doubtful debts	2	2
Total	**2**	**2**

Note 25 – Provision for Taxes on Operating Profit (cont.)

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 26 – Operating Segments

A. General

The Company issues, acquires, and operates American Express credit cards issued for use in Israel and abroad. The Company's activities are managed through two main operating segments: the Issuance Segment, which handles cardholders, and the Acquiring Segment, which handles merchants.

The Issuance Segment

Customers register for the credit-card system by signing a credit-card contract with the Company. The Company issues American Express credit cards under a license from American Express Ltd.

All income and expenses related to customer recruitment and routine handling were allocated to the Issuance Segment.

Main income items – interchange fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer, card fees, deferred-debit fees, and fees from transactions abroad.

Main expenses – marketing, advertising, and management of customer clubs; loyalty program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Acquiring Segment

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items – fees from merchants, net of interchange fees which are allocated to the Issuance Segment.

Main expenses – recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements.

Note 26 – Operating Segments (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments

	For the year ended December 31, 2010		
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Total**
Income			
Fees from externals	35	188	223
Inter-segmental fees	97	(97)	-
Total	132	91	223
Profit from financing activity before provision for doubtful debts	*-	1	1
Other income	1	*-	1
Total income	**133**	**92**	**225**
Expenses			
Provision for doubtful debts	1	*-	1
Operating expenses	45	29	74
Sales and marketing expenses	42	5	47
General and administrative expenses	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**70**	**195**
Operating profit before taxes	**8**	**22**	**30**
Provision for taxes on operating profit	2	6	8
Net profit	**6**	**16**	**22**
Return on equity (percent net profit out of average capital)	4.9	13.1	18.0
Average balance of assets	1,239	290	1,529
Average balance of liabilities	63	1,344	1,407
Average balance of risk-adjusted assets	1,059	186	1,245

* Amount lower than NIS 0.5 million.

Note 26 – Operating Segments (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.)

	For the year ended December 31, 2009		
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Total**
Income			
Fees from externals	34	**159	193
Inter-segmental fees	89	(89)	-
Total	123	70	193
Profit from financing activity before provision for doubtful debts	*-	*-	*-
Other income	1	*-	1
Total income	**124**	**70**	**194**
Expenses			
Provision for doubtful debts	2	*-	2
Operating expenses	36	**22	58
Sales and marketing expenses	26	4	30
General and administrative expenses	9	9	18
Payments to banks	36	19	55
Total expenses	**109**	**54**	**163**
Operating profit before taxes	**15**	**16**	**31**
Provision for taxes on operating profit	4	4	8
Net profit	**11**	**12**	**23**
Return on equity (percent net profit out of average capital)	15.3	16.6	31.9
Average balance of assets	1,162	126	1,288
Average balance of liabilities	50	1,166	1,216
Average balance of risk-adjusted assets	351	24	375

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 26 – Operating Segments (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.)

	For the year ended December 31, 2008		
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Total**
Income			
Fees from externals	35	**147	182
Inter-segmental fees	86	(86)	-
Total	121	61	182
Loss from financing activity before provision for doubtful debts	(*-)	(1)	(1)
Other income	1	*-	1
Total income	**122**	**60**	**182**
Expenses			
Provision for doubtful debts	2	*-	2
Operating expenses	**30	**22	52
Sales and marketing expenses	**32	**3	35
General and administrative expenses	7	8	15
Payments to banks	37	16	53
Total expenses	**108**	**49**	**157**
Operating profit before taxes	14	11	25
Provision for taxes on operating profit	4	3	7
Net profit	**10**	**8**	**18**
Return on equity (percent net profit out of average capital)	18.2	14.5	32.7
Average balance of assets**	1,069	130	1,199
Average balance of liabilities**	46	1,098	1,144
Average balance of risk-adjusted assets**	297	26	323

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 27 – Information Based on the Company's Historical Nominal Data for Tax Purposes

	December 31	
	2010	2009
	Amounts in NIS millions	
Total assets	**1,779**	**1,434**
Total liabilities	**1,636**	**1,348**
Shareholders' equity	**143**	**86**
Nominal net profit	**22**	**23**

Note 28 – Events After the Balance-Sheet Date

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