Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2009

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Isracard Ltd. and its Consolidated Companies

Board of Directors' Report

For the Year Ended December 31, 2009

Board of Directors' Report on the Financial Statements as of December 31, 2009

At the meeting of the Board of Directors held on February 25, 2010, it was resolved to approve and publish the audited consolidated financial statements of Isracard Ltd. ("**the Company**" or "**Isracard**") and its consolidated companies for the year 2009.

Description of the General Development of the Company's Business

General

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

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

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

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

Ms. Irit Izakson has served as Chairperson of the Board of Directors of the Company as of October 2008.

In February 2009, Mr. Dov Kotler took office as Chief Executive Officer of the Company. Mr. Kotler replaced Mr. Haim Krupsky, who served as CEO of the Company starting in 1994. Mr. Krupsky's service as Deputy Chairperson of the Board of Directors ended at the end of October 2009.

Holding Structure of the Company

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

A. **Isracard Mimun Ltd. ("Isracard Mimun")** was established in 2004, and is a wholly owned and controlled subsidiary of the Company. Isracard Mimun provides credit to holders of non-bank credit cards in the Isracard Group, extends loans to merchants acquiring transactions through the Company, and provides non-credit card consumer credit. The balance of credit at Isracard Mimun to cardholders and merchants totaled approximately NIS 736 million on December 31, 2009, compared with approximately NIS 507 million on December 31, 2008. In addition, Isracard granted advance payments to merchants with a balance of NIS 332 million as of December 31, 2009 (December 31, 2008: NIS 202 million).

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

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

Europay is a credit-card company and an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981. Europay issues MasterCard cards, jointly with the Company. The cards are issued by Europay for use abroad and by the Company for use in Israel, under a license granted to Europay by the MasterCard Organization. In addition, Europay acquires transactions with merchants that have agreements with it which are executed in Israel in foreign currency, using MasterCard cards issued abroad by companies in the MasterCard Organization, and paid to the merchant in foreign currency. In accordance with an agreement between the companies, the Company manages and operates issuance and acquiring activities of the aforesaid credit cards for Europay.

D. **Global Factoring Ltd. (“Global”)** – In August 2009, an agreement was signed between the Company and Global, a private factoring company, and its shareholders, pursuant to which 51% of the issued capital of Global (after the allocation) was allocated to Isracard, further to previous legal agreements between the parties. The acquisition transaction generated goodwill for the Company. For further details, see Note 8 to the Financial Statements.

With the signing of the agreement, Global became an auxiliary banking corporation; beyond the rules applicable to auxiliary corporations in general, it is also subject to the instructions in the Bank of Israel's approval of the transaction.

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

E. 20% of the paid-up share capital of **Kidum Mivne Iguach 1 Ltd. (“Kidum”).**

In October 2009, an agreement was signed between the Company, Progress D.S. (Investments & Finance 1992) Ltd. (“Progress Investments”), and Kidum, pursuant to which shares of Kidum were allocated to the Company, such that following the allocation the Company holds 20% of the paid-up capital of Kidum, while Progress Investments holds 80% of this capital.

Kidum extends loans to the general public for the purchase of second-hand motor vehicles.

F. 20% of the paid-up share capital of **I.M.T. - The Central Vehicle Distribution Company Ltd. (“IMT”).**

G. 15% of the issued share capital of **Life Style Customer Loyalty Club Ltd.** and **Life Style Financing Ltd.**

H. 13% of the issued share capital of **Store Alliance.com Ltd.**

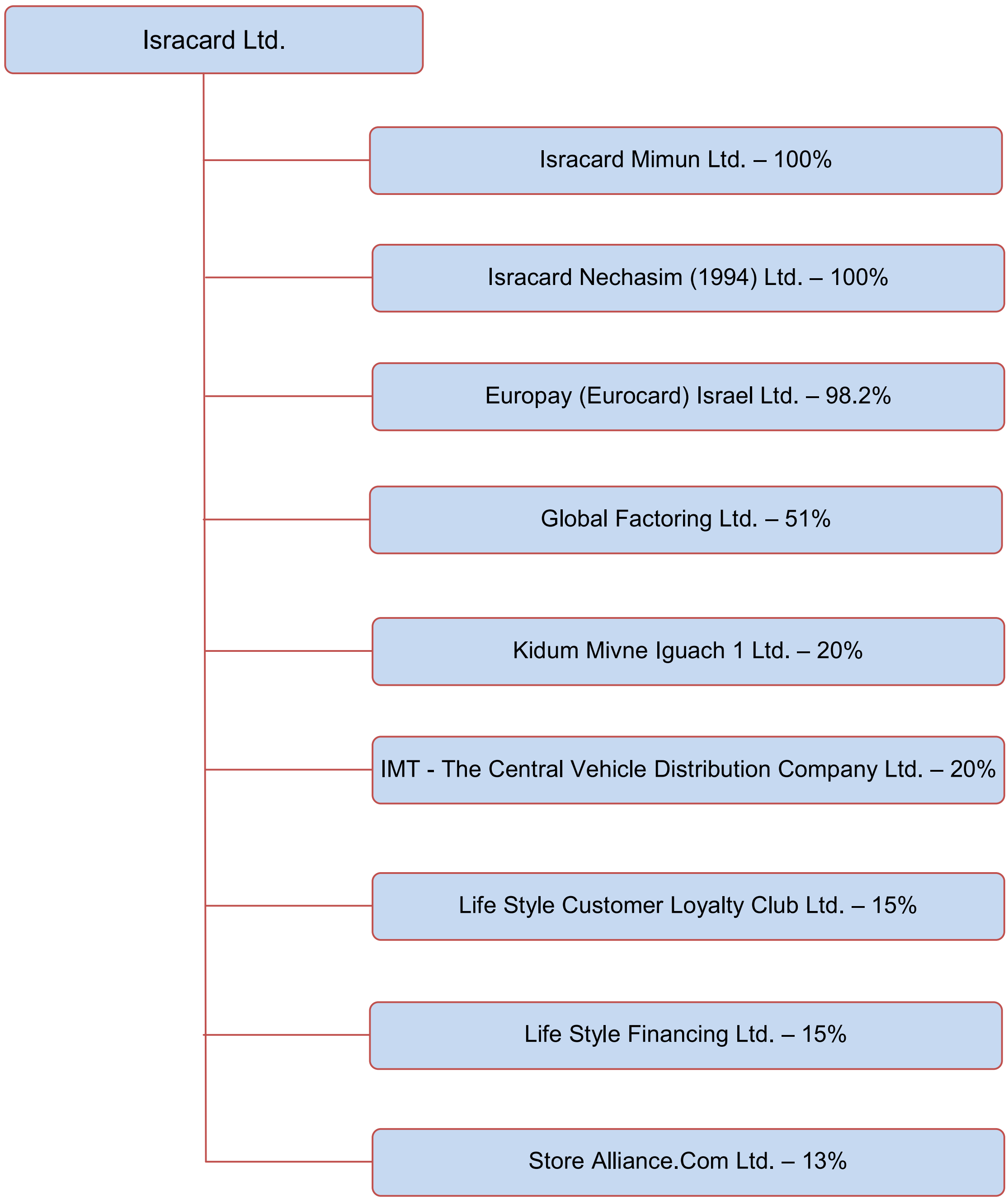
Tzameret Mimunim Ltd. (“Tzameret Mimunim”) – In July 2009, the Company sold its entire stake in Tzameret Mimunim, which constituted 19% of the issued and paid-up share capital of Tzameret Mimunim, to Hapoalim Nechasim (Menayot) Ltd. (“Hapoalim Nechasim”; a subsidiary of Bank Hapoalim, which prior to the sale held the remaining shares of Tzameret Mimunim). Tzameret Mimunim is engaged in discounting transactions in credit-card sales slips. The consideration received by the Company for the sale is in the amount of approximately NIS 15 million, against the repayment of capital notes which the Company provided to Tzameret Mimunim.

On January 31, 2010, the Board of Directors of the Company passed a resolution to acquire the entire holdings of Hapoalim Nechasim in Tzameret Mimunim (100%), in order to centralize the area of credit card sales slip discounting at the Company. This acquisition requires further approvals by Bank Hapoalim.

Dividend distribution – In March 2008, the Company distributed dividends to its shareholders in a total amount of approximately NIS 100 million. This distribution did not require court approvals.

Dividend distribution by the Company is subject to the provisions of the law, including (without exclusions) limits arising from Proper Conduct of Banking Business No. 311, according to which the capital of an auxiliary corporation incorporated in Israel and controlled by a banking corporation shall not be less than 9% of the weighted amount of risk-adjusted assets in its balance-sheet assets and in off-balance-sheet items, and limits arising from guidelines under the Basel II directives concerning capital adequacy ratios.

Structure of Holdings of Isracard as of December 31, 2009



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

Developments in the Global Economy

The deep global recession was checked over the last year, due to factors including the expansive economic policies applied globally. The International Monetary Fund estimates that global GDP contracted by 0.8% in 2009 compared to the preceding year, while GDP of the developed countries diminished by 3.2%. The emerging economies helped temper the decline in global activity; particularly notable were China and India, with growth rates of 8.7% and 5.6% respectively. The majority of the world's economies moved into growth trajectories in the second half of 2009, although a substantial part of this growth is accounted for by stimulus measures applied by governments and by the renewal of inventories, so that it is difficult to ascertain to what extent the growth has solidified. The recovery has not yet taken the form of new job creation, and unemployment rates in the US and in Europe have risen to about 10%. The deep recession and the support granted by governments to the economy and financial markets have enlarged budget deficits and government debts, which are now an obstacle to development in the near term. The sharp increase in budget deficits damaged the stability of several euro zone countries, primarily Greece, whose debt rating was downgraded. There are no signs of inflation in the near term in the developed countries, allowing expansive monetary policies to be applied. However, several countries whose damage from the crisis was moderate have started to raise interest rates.

Israel – Economic Activity

The damage sustained by the Israeli economy as a result of the global economic crisis was moderate both relative to advance estimates and relative to other developed countries. The main negative impact for the Israeli economy took the form of a sharp drop in exports and damage to Israeli companies whose operations are focused overseas, in particular in the real-estate sector. The contraction of Israeli GDP was moderate and lasted only two quarters, the fourth quarter of 2008 and the first quarter of 2009. Growth resumed in the second quarter of 2009, with a sharp increase in exports and improved consumption. The growth rate rose during the year and reached all sectors of the economy. According to early estimates by the Central Bureau of Statistics, Israel's GDP grew by 0.5% in 2009 as compared to the preceding year. The turnaround in economic activity during the year is particularly impressive in view of the fact that hardly any government stimulus programs such as those used in other countries were applied. However, monetary policy was highly expansive and made a substantial contribution to the improvement. The low interest rate increased demand in the housing market and contributed to the steep gains in the financial markets, serving to temper the negative effects of the global crisis. The improvement in activity was also reflected in the labor market, as the rise in unemployment was arrested during the second half of 2009; a decrease has actually been apparent in the last few months, with unemployment down to 7.4% in November 2009. It should be noted that the good condition of the labor market is quite surprising, given the brief period of time from the renewal of growth to the beginning of the decrease in unemployment. Estimates indicate that the Israeli economy is very well positioned going into 2010; the crisis has not increased the volume of public debt, and the financial systems remain stable. The Israeli economy is benefiting from the global tailwinds and the expansive monetary policy. Israel's economic standing has greatly improved following the global crisis, and its scheduled accession to the OECD during the year will further boost the attractiveness of its financial markets. The major risks remain the possible implications of a renewed global crisis. The cumulative effect of the economic crisis has two implications for the Company's credit business: on one hand, the expansion of credit activity under the responsibility of the Company; and on the other hand, an increase in provisions for doubtful debts.

Inflation and Exchange Rates

The consumer price index rose by 3.9% in 2009. The large increase in prices is partly attributed to the increases in indirect taxation, which contributed an estimated 1.2%. The effect of the expansive monetary policy was apparent in the continued increase of approximately 18% in home prices for homeowners, while the housing item of the consumer price index, which is based on rent prices, rose by 5.6%. The increase in rent prices slowed during the last quarter of 2009. There are also indications of falling demand for new homes; we estimate that the increase in housing prices is decelerating.

The shekel depreciated by 2.7% during 2009. The shekel traded on a downward trend against the currency basket until mid-May, and on an upward trend from mid-May 2009 on. The Bank of Israel continued to intervene in trading during 2009. The BOI continued to perform daily foreign-currency purchases of USD 100 million until August 10; it then announced that it would cease the regular purchases, but would intervene in cases in which "the fluctuations in the exchange rate are incongruent with basic economic conditions." The BOI purchased foreign currency on several additional occasions after that date, and foreign-currency reserves reached USD 60.6 billion by the end of 2009.

Fiscal and Monetary Policy

Following the crisis and the decrease in tax revenues, the budget deficit target for 2009 was raised to 6% of GDP. During the second half of 2009, with the transition to growth, tax revenues recovered and indirect taxation rates were raised. As a result, tax revenues were higher than the assumptions in the budget, and the budget deficit amounted to 5.2% of GDP. Israel is one of the only countries where the ratio of government debt to GDP did not rise substantially over the last year.

The Bank of Israel applied a highly expansive monetary policy in 2009, including reduction of the interest rate to 0.5%. In addition, the BOI applied a policy of "quantitative easing," in which it increased its balance sheet by purchasing foreign currency and government bonds, while expanding liquidity in the markets. In the second half of 2009, with the transition to growth, the BOI began to reduce liquidity; the purchases of government bonds stopped first, foreign-currency purchases were reduced, and in September the interest rate began to rise. The BOI interest rate was 1% in December, rising to 1.25% in January 2010. As a mirror image to the low interest rate, means of payment rose by a steep 51% in 2009. This increase was influenced by factors including the redirection of deposits to current-account balances due to the low interest rates. The current interest rate is very low relative to the growth rate of the economy. However, we estimate that the trajectory for the interest rate going forward will depend to a substantial extent on trends overseas, and that as long as central banks globally are applying expansive policies, interest-rate hikes in Israel will be moderate.

The low interest rate has two opposing effects on the Company: on one hand, the possibility of expanding credit granting, at low interest rates, as long as capital raising costs do not grow; and on the other hand, damage to the Company's revenues due to a decrease in financing income from current operations and capital.

The Credit-Card Industry in Israel

As of the report date, the following companies operate in the area of credit-card issuance and acquiring in Israel: (1) the Company and Europay, which issue and acquire Isracard and MasterCard credit cards; (2) Poalim Express Ltd., a sister company ("**Poalim Express**"), which issues and acquires American Express credit cards; (3) Aminit Ltd., a sister company ("**Aminit**"), which issues and acquires Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which, to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which, to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and acquires Diners credit cards.

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 5746-1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 5741-1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 5760-2000 (the "**Anti-Money Laundering Law**") and the order issued under its power by the Bank of Israel. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, which regularizes the activity of credit-card companies, as well as guidelines derived from the Basel II Accord, which establish risk-management standards aimed at reinforcing the financial robustness and stability of banking systems worldwide.

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

Operational Data

Number of credit cards (in thousands)

Number of valid credit cards as of December 31, 2009

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

Number of valid credit cards as of December 31, 2008

	Active cards	Inactive cards	Total
Bank cards	1,926	309	2,235
Non-bank cards –			
Credit risk on the Company	160	46	206
Credit risk on others	84	51	135
	244	97	341
Total	**2,170**	**406**	**2,576**

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

	For the year ended December 31	
	2009	**2008**
Bank cards	65,606	64,540
Non-bank cards –		
Credit risk on the Company	4,463	2,260
Credit risk on others	1,967	2,340
	6,430	4,600
Total	**72,036**	**69,140**

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

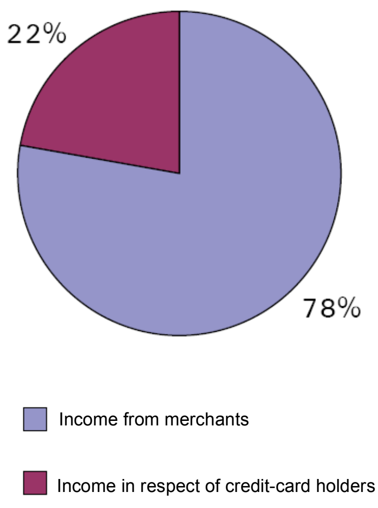
The Company's net profit totaled NIS 154 million, compared with NIS 173 million in 2008, a decrease of 10.98%. The decrease in the Company's net profit as compared to the preceding year resulted from profit after tax in the amount of NIS 20 million from the sale of shares of MasterCard Incorporated ("MC") in the preceding year. Excluding the effect of the profit from the aforesaid sale of shares, net profit was NIS 153 million in 2008, and increased by 0.65% in 2009.

Net return on average equity reached 15.3%, compared with 20.2% in 2008. The decrease in the rate of net return on average equity of the Company compared to 2008 mainly resulted from the sale of shares of MC.

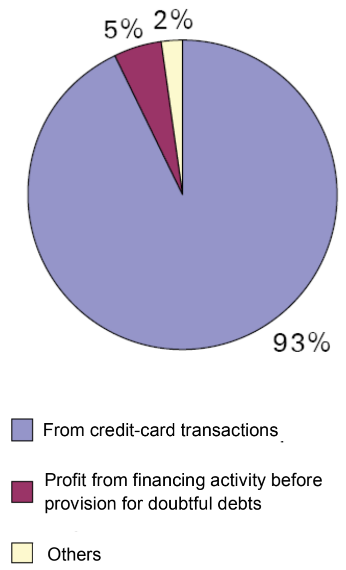
Developments in Income and Expenses

Income totaled NIS 1,266 million, compared with NIS 1,268 million in 2008. Excluding the effect of the income from the sale of shares of MasterCard Incorporated, income totaled NIS 1,242 million in 2008, and increased by 1.9% in 2009.

Composition of income from credit-card transactions, 2009



Composition of income, 2009



Income from credit-card transactions totaled NIS 1,168 million, compared with NIS 1,146 million in 2008, an increase of 1.9%. The increase resulted from the following factors:

- Income from merchants totaled NIS 916 million, compared with NIS 914 million in 2008.

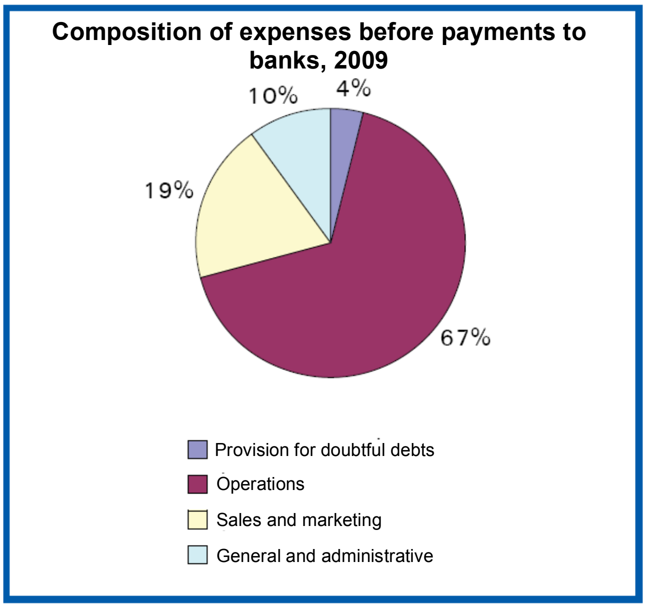
- Income in respect of credit-card holders totaled NIS 252 million, compared with NIS 232 million in 2008, an increase of 8.6%, which mainly resulted from the effect of the increase in the volume of transactions using the Company's cards in Israel acquired by other acquirers.

Profit from financing activity before provision for doubtful debts totaled NIS 68 million, compared with NIS 74 million in 2008, a decrease of 8.1%. The decrease mainly resulted from a decrease in short-term interest rates. During 2009, the average interest rate on positive balances fell from 3.59% to 0.62%.

Other income totaled NIS 30 million, compared with NIS 48 million in 2008, a decrease of 37.5%. The decrease resulted from the sale of shares of MC in the preceding year, which generated income in the amount of NIS 26 million.

Expenses, excluding payment of interchange fee to other issuers, before payments to banks totaled NIS 619 million, compared with NIS 561 million in 2008, an increase of 10.3% (for an explanation of this increase, see the section on operating and administrative expenses, below).

Expenses, including payment of interchange fee to other issuers, before payments to banks totaled NIS 682 million, compared with NIS 615 million in 2008, an increase of 10.9% (for an explanation of this increase, see the section on operating and administrative expenses, below).



Expenses including payments to banks totaled NIS 1,056 million, compared with NIS 1,031 million in 2008, an increase of 2.4%.

The provision for doubtful debts totaled NIS 29 million, compared with NIS 14 million in 2008, an increase of 107.1%, mainly resulting from an increase in the volume of credit granted to cardholders and merchants, and an increase in the rate of the group provision.

Operating expenses, including the payment of interchange fees to other issuers, totaled NIS 452 million, compared with NIS 405 million in 2008, an increase of 11.6%. The increase resulted from the following factors:

- An increase in depreciation and data processing expenses, due to an increase in the Company's investments and expenses, mainly in the area of computer systems and software.
- An increase in expenses on the production and delivery of debit statements for cardholders and credit statements for merchants, as a result of the growth in the Company's activity.
- An increase in expenses on interchange fees to other issuers. For an explanation of this increase, see below.

Expenses for interchange fees to other issuers totaled NIS 63 million, compared with NIS 54 million in 2008, an increase of 16.67%, resulting from an increase in the volume of transactions in credit cards issued by other issuers in Israel and acquired by the Company.

Sales and marketing expenses totaled NIS 132 million, compared with NIS 145 million in 2008, a decrease of 9%, which resulted from a decrease in advertising expenses.

General and administrative expenses totaled NIS 69 million, compared with NIS 51 million in 2008, an increase of 35.3%. The increase mainly resulted from an increase in salary expenses and in expenses for professional and other services.

Payments to banks under agreements with the banks totaled NIS 374 million, compared with NIS 416 million in 2008, a decrease of 10.1%; excluding non-recurring events, the decrease was at a rate of 4.9%.

The ratio of expenses to income before payments to banks reached 53.9%, compared with 49.5% in 2008.

Operating profit before taxes totaled NIS 210 million, compared with NIS 237 million in 2008. Excluding the profit from the sale of shares of MC, profit in 2008 totaled NIS 211 million.

The return of operating profit before taxes on average equity reached 20.91%, compared with 27.6% in 2008. The decrease in comparison to 2008 resulted from the inclusion in operating profit in 2008 of the profit from the sale of shares of MC, in the amount of NIS 26 million. Excluding the aforesaid profit from the sale of shares, the rate of return in 2008 was 24.7%.

The provision for taxes on operating profit totaled NIS 57 million, compared with NIS 64 million in 2008. The effective rate of tax out of total operating profit before taxes reached 27%, similar to the effective tax rate in 2008.

Developments in Balance-Sheet Items

The consolidated balance sheet as of December 31, 2009 totaled NIS 11,615 million, compared with NIS 10,729 million on December 31, 2008.

	December 31		
	2009	2008	Change
	NIS millions		%
Total balance sheet	11,615	10,729	8.3
Debtors in respect of credit-card activity	10,515	9,251	13.7
Cash on hand and deposits with banks	493	931	(47.0)
Securities	178	212	(16.0)
Creditors in respect of credit-card activity	10,249	9,412	8.9
Shareholders' equity	1,094	924	18.4

Debtors in respect of credit-card activity totaled NIS 10,515 million on December 31, 2009, compared with NIS 9,251 million at the end of 2008. 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 mainly resulted from an increase in the volume of activity in the cards issued by the Company, and an increase in credit extended to cardholders and merchants.

Cash on hand and deposits with banks totaled NIS 493 million on December 31, 2009, compared with NIS 931 million at the end of 2008. The decrease mainly resulted from an increase in the amount of credit granted by the Company to cardholders and merchants, and from the acquisition of Europay and Global, which were consolidated for the first time, in the amount of NIS 192 million.

Securities totaled NIS 178 million on December 31, 2009, compared with NIS 212 million at the end of 2008. The decrease in comparison to the end of 2008 mainly resulted from net sales of Israeli government bonds in the amount of NIS 50 million.

Buildings and equipment totaled NIS 254 million on December 31, 2009, compared with NIS 224 million at the end of 2008. The increase mainly resulted from investments in computer systems and software.

Creditors in respect of credit-card activity totaled NIS 10,249 million on December 31, 2009, compared with NIS 9,412 million at the end of 2008. 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 the acquiring volume of transactions executed with merchants who have entered into acquiring agreements with the Company.

Shareholders' equity totaled NIS 1,094 million on December 31, 2009, compared with NIS 924 million at the end of 2008. The increase in comparison to the end of 2008 mainly resulted from the Company's net profit, in the amount of NIS 154 million.

The ratio of shareholders' equity to the balance sheet reached 9.4% on December 31, 2009, compared with 8.6% on December 31, 2008.

The ratio of capital to risk-adjusted assets under Proper Conduct of Banking Business Directive 311 reached 24.3% on December 31, 2009, compared with 23.6% on December 31, 2008.

The ratio of capital to risk-adjusted assets under the Basel II directives reached 12.9% on December 31, 2009.

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

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the acquirer or merchant, respectively, for card issuance and operational services.

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

Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company and Europay have agreements, including Bank Hapoalim (the parent company), Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**"). See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) the image of the Company's private brand, Isracard, as a leading brand in Israel; (3) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service; (6) an operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency and preservation of size advantage.

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

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

Products and Services

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

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; loans for specific purposes for private and business customers; fuel cards and refueling devices; gift certificates and cards; rechargeable cards; various credit plans based on Isracredit plans; various types of all-purpose loans based on credit facilities in credit cards; various options for spreading payments; and information services and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment. The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by acquirers to issuers in respect of transactions executed 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 21 to the financial statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

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

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

Customers – Cardholders

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

As of the date of the report, there are no cardholders (bank and/or non-bank) whose rate 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 2009.

Marketing and Distribution

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

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

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

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

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

In addition, new Hever members were granted the option of purchasing DVD players at a cost subsidized by the Company and the Hever club, for which an adequate provision was recorded in the financial statements.

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

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

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

Within the contractual engagement between the Company and the Life-Style Club, a campaign for holders of the new Life-Style card was agreed upon, in which cardholders will be awarded a monetary refund according to the volume of usage and the terms of the campaign. An adequate provision was recorded in the financial statements.

Competition

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

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

For details regarding the credit-card companies operating in Israel, see the section "The Credit-Card Industry in Israel," above.

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

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

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

The Credit-Card Acquiring Segment

General

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

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

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

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

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

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

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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 additional non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Products and Services

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

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

Segmentation of Income from Products and Services

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

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

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries, as well as companies that provide discounting services to merchants. Discounting companies 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 2009.

Marketing and Sales

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

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

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

Competition

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

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

As of the date of the report, the Company is the only company to acquire, in Israel, transactions in Isracard cards, a private brand owned by the Company. 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, loans, advance payments, flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant, discounting services, loans, etc.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to each merchant's unique needs; (4)

operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems. The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as financing and loan services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the acquiring service provider, and in formulating the overall perception of the Company by merchants.

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

Negative factors affecting the Company's competitive standing include, among others, 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 acquiring; and merchants' ability to switch acquirers in MasterCard and Visa brands at their discretion.

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

The Other Segment

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

Seasonality

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

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2009			
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Other[(1)]**	**Total**
Income				
Fees from externals	249	918	1	1,168
Intersegmental fees	717	(717)	-	-
Total	**966**	**201**	**1**	**1,168**
Profit from financing activity before provision for doubtful debts	49	18	1	68
Other income	2	3	25	30
Total income	**1,017**	**222**	**27**	**1,266**
Expenses				
Provision for doubtful debts	25	1	3	29
Operations	296	151	5	452
Sales and marketing	102	27	3	132
General and administrative	45	22	2	69
Payments to banks	373	1	-	374
Total expenses	**841**	**202**	**13**	**1,056**
Operating profit before taxes	**176**	**20**	**14**	**210**
Provision for taxes on operating profit	48	5	4	57
Operating profit after taxes	**128**	**15**	**10**	**153**
The Company's share in profits of affiliated companies	-	-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	-	-	1	1
Net profit	**128**	**15**	**11**	**154**
Return on equity (percent net profit out of average capital)	12.7	1.5	1.1	15.3
Average balance of assets	9,626	1,026	276	10,928
Of which: investments in affiliated companies	-	-	15	15
Average balance of liabilities	204	9,679	52	9,935
Average balance of risk-adjusted assets	4,167	347	104	4,618

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

* Amounts lower than NIS 0.5 million.

Financial Information on the Company's Operating Segments (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**	**Other[1]**	**Total**
Income				
Fees from externals**	231	914	1	1,146
Intersegmental fees	730	(730)	-	-
Total	**961**	**184**	**1**	**1,146**
Profit from financing activity before provision for doubtful debts	43	29	2	74
Other income**[(2)]	1	-	47	48
Total income	**1,005**	**213**	**50**	**1,268**
Expenses				
Provision for doubtful debts**	12	2	-	14
Operations**	264	134	7	405
Sales and marketing	109	31	5	145
General and administrative	36	14	1	51
Payments to banks	398	18	-	416
Total expenses	**819**	**199**	**13**	**1,031**
Operating profit before taxes	**186**	**14**	**37**	**237**
Provision for taxes on operating profit	50	4	10	64
Operating profit after taxes	**136**	**10**	**27**	**173**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**136**	**10**	**27**	**173**
Return on equity (percent net profit out of average capital)	16.0	1.0	3.2	20.2
Average balance of assets	9,029	1,478	202	10,709
Of which: investments in affiliated companies	-	-	21	21
Average balance of liabilities	344	9,465	47	9,856
Average balance of risk-adjusted assets	2,202	803	178	3,183

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

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

* Amounts lower than NIS 0.5 million.

** 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, 2007			
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Income				
Fees from externals**	193	883	-	1,076
Intersegmental fees	700	(700)	-	-
Total	**893**	**183**	**-**	**1,076**
Profit from financing activity before provision for doubtful debts	32	23	2	57
Other income**	1	-	17	18
Total income	**926**	**206**	**19**	**1,151**
Expenses				
Provision for doubtful debts	7	*-	-	7
Operations	233	117	5	355
Sales and marketing	111	31	-	142
General and administrative	28	15	1	44
Payments to banks	378	30	-	408
Total expenses	**757**	**193**	**6**	**956**
Operating profit before taxes	**169**	**13**	**13**	**195**
Provision for taxes on operating profit	45	4	4	53
Operating profit after taxes	**124**	**9**	**9**	**142**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**124**	**9**	**9**	**142**
Return on equity (percent net profit out of average capital)**	16.0	1.2	1.2	18.4

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

* Amounts lower than NIS 0.5 million.

** Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 128 million, compared with NIS 136 million in 2008, a decrease of 5.9%.

Net return on equity in the segment reached 12.7%, compared with 16% in 2008.

Developments in Income and Expenses

The segment's income totaled NIS 1,017 million, compared with NIS 1,005 million in 2008, an increase of 1.2%.

Income from fees totaled NIS 966 million, compared with NIS 961 million in 2008, an increase of 0.5%.

Profit from financing activity before provision for doubtful debts totaled NIS 49 million, compared with NIS 43 million in 2008, an increase of 14%, mostly resulting from an increase in the volume of credit granted to cardholders.

The segment's expenses before payments to banks totaled NIS 468 million, compared with NIS 421 million in 2008, an increase of 11.2% (for an explanation of this increase, see the "operating expenses" section below).

The segment's expenses including payments to banks totaled NIS 841 million, compared with NIS 819 million in 2008, an increase of 2.7%.

The provision for doubtful debts totaled NIS 25 million, compared with NIS 12 million in 2008, an increase of 108.3%, resulting from an increase in the volume of credit granted to cardholders by the Company and an increase in the rate of the group provision.

Operating expenses totaled NIS 296 million, compared with NIS 264 million in 2008, an increase of 12.1%. The increase resulted from the following factors:

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

- An increase in expenses on production and delivery, as a result of the growth in the Company's activity.

Sales and marketing expenses totaled NIS 102 million, compared with NIS 109 million in 2008, a decrease of 6.4%, which mainly resulted from savings on advertising expenses.

General and administrative expenses totaled NIS 45 million, compared with NIS 36 million in 2008, an increase of 25%, mainly resulting from an increase in salary expenses.

Payments to banks under agreements with the banks totaled NIS 373 million, compared with NIS 398 million in 2008, a decrease of 6.3%.

The ratio of expenses to income in the segment, before payments to banks, reached 46%, compared with 42% in 2008.

The segment's operating profit before taxes totaled NIS 176 million, compared with NIS 186 million in 2008, a decrease of 5.4%.

The provision for taxes on operating profit in the segment totaled NIS 48 million, compared with NIS 50 million in 2008.

Profit and Profitability – Acquiring Segment

The segment's net profit totaled NIS 15 million, compared with NIS 10 million in 2008, an increase of 50%.

Net return on equity in the segment reached 1.5%, compared with 1% in 2008.

Developments in Income and Expenses

The segment's income totaled NIS 222 million, compared with NIS 213 million in 2008, an increase of 4.2%.

Income from fees totaled NIS 201 million, compared with NIS 184 million in 2008, an increase of 9.2%.

Profit from financing activity before provision for doubtful debts totaled NIS 18 million, compared with NIS 29 million in 2008, a decrease of 38%, mostly resulting from a decrease in short-term interest rates.

The segment's expenses, excluding payment of interchange fees to other issuers, before payments to banks totaled NIS 138 million, compared with NIS 127 million in 2008, an increase of 8.7%.

The segment's expenses, including payment of interchange fees to other issuers, before payments to banks totaled NIS 201 million, compared with NIS 181 million in 2008, an increase of 11%; for an explanation of this increase, see below.

The segment's expenses including payments to banks totaled NIS 202 million, compared with NIS 199 million in 2008, an increase of 1.5%.

The provision for doubtful debts totaled NIS 1 million, compared with NIS 2 million in 2008.

Operating expenses, including the payment of interchange fees to other issuers, totaled NIS 151 million, compared with NIS 134 million in 2008, an increase of 12.7%. The increase resulted from the following factors:

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

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

- An increase in expenses on interchange fees to other issuers. For an explanation of this increase, see below.

Expenses for interchange fees to other issuers totaled NIS 63 million, compared with NIS 54 million in 2008, an increase of 16.7%, resulting from an increase in the volume of transactions in credit cards issued by other issuers in Israel and acquired by the Company.

Sales and marketing expenses totaled NIS 27 million, compared with NIS 31 million in 2008, a decrease of 12.9%, mainly resulting from savings on advertising expenses.

General and administrative expenses totaled NIS 22 million, compared with NIS 14 million in 2008, an increase of 57%, mainly resulting from an increase in salary expenses.

Payments to banks under agreements with the banks totaled NIS 1 million, compared with NIS 18 million in 2008, a decrease of 94.4%.

The ratio of expenses to income in the segment, before payments to banks, reached 91%, compared with 85% in 2008.

The segment's operating profit before taxes totaled NIS 20 million, compared with NIS 14 million in 2008.

The provision for taxes on operating profit in the segment totaled NIS 5 million, compared with NIS 4 million in 2008.

Profit and Profitability – Other Segment

The segment's net profit totaled NIS 11 million, compared with NIS 27 million in 2008, a decrease of 59%. The decrease in the net profit of the segment resulted from profit after tax in the amount of NIS 20 million from the sale of shares of MC in the preceding year. Excluding the effect of the profit from the sale of the shares, net profit was NIS 7 million, and would have increased by 57%.

Net return on equity in the segment reached 1.1%, compared with 3.2% in 2008.

Developments in Income and Expenses

The segment's income totaled NIS 27 million, compared with NIS 50 million in 2008, a decrease of 46%, which resulted from income in respect of shares of MC in the amount of NIS 26 million in 2008.

Operating and other income totaled NIS 25 million, compared with NIS 47 million in 2008, a decrease of 47%, which resulted from the sale of shares of MC in 2008.

Profit from financing activity before provision for doubtful debts totaled NIS 1 million, compared with NIS 2 million in 2008.

The segment's expenses totaled NIS 13 million, similar to 2008.

The ratio of expenses to income in the segment reached 48%, compared with 26% in 2008.

The segment's operating profit before taxes totaled NIS 14 million, compared with NIS 37 million in 2008, a decrease of 62%.

The provision for taxes on operating profit in the segment totaled NIS 4 million, compared with NIS 10 million in 2008, a decrease of 60%.

Fixed Assets and Facilities

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

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

Intangible Assets

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

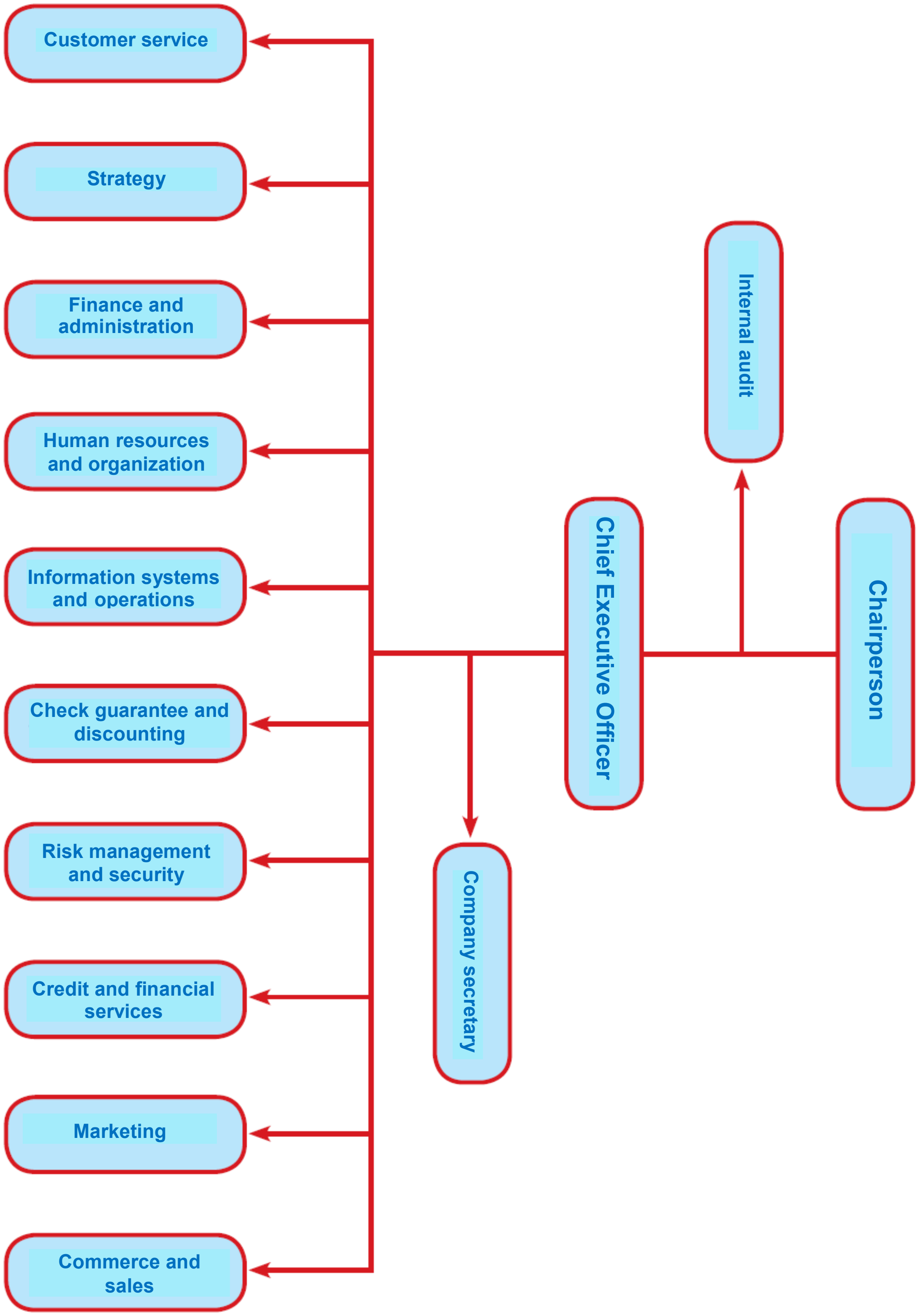
In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 5741-1981 and the regulations enacted under that law, including the duty to register a database (as defined in the Protection of Privacy Law) in accordance with the requirements of the law and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

Human Capital

Organizational Structure

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

List of the Company's units:



Personnel

Total employee positions at the Company include:

(1) Employees employed under personal employment contracts signed with the Company or with Europay;

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

(3) External personnel.

The number of employee positions increased by 225 in 2009, compared to the number of positions at the end of 2008. Most of the increase occurred in employee positions in the areas of customer service and operations.

	2009	2008
Average positions on a monthly basis	1,184	1,089
Total positions at year end	1,413	1,188

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.

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 2009, the Company continued to maintain this policy, through:

1. Encouragement of employees' efforts to develop innovation, excellence, 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. Cultivation of teamwork.
4. Expansion of opportunities for promotion, study, and individual development, including the creation of development tracks in the service system.
5. A rational wage policy.
6. Examination of changes in human resources policy aimed at achieving increased efficiency and cost savings.

Intra-Organizational Communications

During the year, an organization-wide porject was implemented with the aim of enhancing intra-organizational communications by developing and strengthening communication channels within the Group. Through the organizational portal, a communications channel was opened which serves as a routine daily source of updates and engages employees as partners in adding value and identifying with the Group.

Ethical Code

The process of formulating and defining an ethical code for the Isracard Group began during 2009. 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.

Numerous employees and managers from all parts of the Group and from various areas of activity are active partners in the formulation of the code, in an open, cooperative dialogue held in work groups and in meetings with officers and stakeholders. This process is slated for completion during the first quarter of 2010.

Professional Training

Key objectives in 2009 were to impart and improve professional, managerial, and behavioral skills and the absorption of organizational values.

During the year, many training sessions were conducted for target groups to support the implementation of new products, changes in existing services, and technological changes.

Activity focused on training and instruction for various roles within the Company, absorption of a service culture, increasing professional knowledge, training of new service representatives, targeted training for various employee groups according to area of activity, and encouragement of employees to acquire higher education.

Special emphasis was placed in 2009 as well on the management and leadership program for managers at the Company, which was expanded to additional levels of management.

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 2009, we expanded diversity while creating a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, concurrently learning to be open to others and to those who are different from us, and to create a more tolerant community of employees, with respect and appreciation for others.

Community Involvement and Contribution

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

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

Notable Contributions to the Community

Education and Advancement of Youth

The Group believes that investment in education and in strengthening youth can bridge the existing gaps between different population groups within Israeli society. Accordingly, it invests in activities that advance youth and support youth well-being in various locations throughout Israel.

- Support for the Atzmaut (Independence) program, which promotes Ethiopian Israeli youth in Sderot, simultaneously closing gaps in the academic, emotional, and social spheres.

- Development of the Classikid program – a musical education program for preschool and school children in Sderot.

- Ongoing volunteer activities at the Kadima center for adolescents in the Shapira neighborhood of Tel Aviv, which serves as a “second home” for the neighborhood’s children; aid for older adolescents and preparation for matriculation examinations.

- Support for the Tzeva (Youth Building a Future) program in the Kfir neighborhood of Tel Aviv, and support for the Tzeva program in schools in Shfar’am, for the education and advancement of youth.

- Volunteer activities and support for children at the Jewish-Arab Community Center in Jaffa.

- A computer class for children at the Company’s training center.

Donations and Aid for Children in Need

The Group and its employees accord high importance to caring for children in need from families living in poverty, and provide aid for school supplies and food products.

- Sandwiches for students – Each day, employees prepare some 120 sandwiches (about 25,000 a year) which are distributed at schools in the Kfir neighborhood of Tel Aviv and at three schools in Bat Yam.

- Packing food baskets for Rosh Hashanah and Passover – With the support of the Company, employees pack food baskets for the children’s families for the holidays.

- Distribution of school backpacks – In advance of the 2009-2010 school year, backpacks were distributed to schoolchildren from Ethiopian Israeli families in need in Sderot and to the children of the Kadima youth centers throughout Israel.

Health and Advancement of Children at Risk

The Group supports and aids a wide range of foundations, including foundations working to advance children at risk and foundations working to improve the quality of life of children suffering from various illnesses.

This activity takes the form of sponsorships for various community activities and support for the activity of foundations such as Beit Issie Shapiro, AKIM National Association for the Habilitation of the Mentally Handicapped in Israel, ILAN Israel Foundation for Handicapped Children, ALUT – The Israeli Society for Autistic Children, and many more.

"Adopt a Soldier"

The Group accords high importance to the values of contribution to our country, and is committed to supporting soldiers.

- This is the fourth year in which we have adopted the Nahal Patrol Regiment, as part of the Adopt a Soldier project, and provided ongoing support for the well-being of the regiment and its soldiers. An emphasis was placed on strengthening relationships with bereaved families of soldiers in the regiment and relationships between employees of the Group and the soldiers.

- During Operation Cast Lead, management and employees came together to aid residents of communities in the conflict zones and IDF soldiers serving in southern Israel.

- Support for Beit Kobi – Financing of housing for "lone soldiers" (IDF soldiers without parents living in Israel).

Remembrance

We believe that it is our duty to instill and preserve the heritage of the Jewish people, and to help members of the younger generation be aware of the period of the Holocaust in various ways. We have worked towards this goal by supporting Beit Lohamei Hagetaot (Ghetto Fighters' House Museum), through funding of transportation for visits to the museum for children from peripheral regions, and by supporting Edut (Testimony) Theater, in which students presents stories of Holocaust survivors.

Group employees are exposed to and participate in various activities, including tours of Yad Vashem, journeys to Poland, volunteering with Holocaust survivors, and more.

Empowerment of Women

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

“Matan – Your Way to Give”

Multi-year activity in which employees are exposed to the importance of giving to the community, based on partnership between employees and management. The objective of this activity is to promot a range of social causes.

Service Providers

The Company's main service providers include:

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

Beeri Printers – The Company has contracted with Beeri Printers for the provision of production, printing, and binding services of the list 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 not processed by the central computer of the Company, saved at the backup site of Bank Hapoalim.

Further to a resolution of the Company in late 2008, an immediate backup site for these systems will be established at the backup site of Bank Hapoalim. This process will be completed during 2010, and is contingent upon an upgrade of the logistical maintenance at the backup site.

Until that date, the Company is prepared to set up an alternative infrastructure, in a gradual process over the course of three months from the occurrence of a catastrophic event, according to a hierarchy of criticalness of the systems in this environment.

Financing

The Company 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 approved the Income Tax Ordinance Amendment Law (No. 147), 5765-2005, which among other matters sets forth a gradual reduction of the corporation tax rate, to 25% from the tax year 2010 forward.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 5769-2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from 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.

The implementation of these legislative amendments has no material impact on these financial statements.

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and acquiring charge cards, operating a charge-card system, and extending credit, laws and directives related to its activity in these areas apply to the Company. These laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of the issuance and acquiring of charge cards. In addition, various directives issued by the Supervisor of Banks and applicable to credit-card companies apply to the Company, such as Proper Conduct of Banking Business Directive No. 470 (Charge Cards), which regularizes the operation of credit-card companies that are auxiliary banking corporations and of banking corporations with regard to the operation of charge-card systems. In addition, additional Proper Conduct of Banking Business Directives apply to 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, 5714-1954; the Banking Ordinance; the Banking Law (Customer Service), 5741-1981 and the derived secondary legislation; and a system of directives, guidelines, and position statements of the Supervisor of Banks at the Bank of Israel.

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

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

Antitrust Issues

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

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

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

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

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

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

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

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

The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted a temporary permit for the Arrangement, in effect until June 30, 2010.

The terms of the Arrangement include, *inter alia*: the establishment of interchange-fee rates, which gradually decrease during the term of the Arrangement; commitment by the parties to petition the

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

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

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it gave a verdict on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January 2009. The expert was to have continued to formulate his final opinion, but before he had completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be barred from completing the opinion.

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

The Company signed the Domestic Agreement in May 2007.

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

The Company estimates that the materialization of any of the following: large-scale acquiring of transactions in MasterCard cards by additional acquirers other than the Company; implementation of the Arrangement and its terms, including reduction of the interchange fee; or the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof, may influence the Company's courses of action and may have a material adverse impact on the Company's future financial results; however, the Company cannot estimate the extent of such an effect.

Additional Regulation

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

2. In April 2009, a private bill was submitted to Knesset concerning the promotion of competition in the area of automatic refueling. The bill gained preliminary approval on July 8, 2009 and was transferred to the Economics Committee to be prepared for a first reading. The bill may be relevant to the Company, due to the fact that the Company issues refueling devices that constitute “charge cards” under the Charge Cards Law, 5746-1986. 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.

3. A private bill was submitted to Knesset in April 2009, and a government bill was passed in the first reading in January 2010, both concerning the postponement of debits for cardholders who enter into ongoing transactions for medical services or emergency medicine. 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 the Company estimates that its extent is immaterial.

4. 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.

5. A private bill was submitted to Knesset in May 2009 concerning the duty to note approvals and material terms of uniform contracts. The bill gained preliminary approval on July 8, 2009 and was transferred to the Constitution, Law, and Justice Committee to be prepared for a first reading. 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 the Company estimates that its extent is immaterial.

6. 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.

7. 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.

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

   In December 2007, the Supervisor of Banks issued a circular on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses" (the "**Circular**" or the "**Directive**"). The original directive is based on American accounting standards (mainly FAS 5 and FAS 114) and on the related regulatory directives of banking supervision agencies and of the Securities and Exchange Commission in the United States, among other sources. The guiding principles of the Circular represent a substantial change relative to the current directives on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts. A circular amending the original Circular of December 2007 was issued on February 21, 2010, along with other directives, which among other matters postpones the initial implementation date to January 1, 2011. For further details, see Note 2.CC.4 to the financial statements.

Legal Proceedings

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 7 million. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low; therefore, no provision was made in respect of these claims.

2. In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Europay, along with a petition to certify the claim as a class action. The amount of the personal claim stated in the claim statement in NIS 82, and the amount of the class-action suit is NIS 16 million. The petition for class-action status mainly concerns the allegation that the "triple" conversion method applied by the respondents in transactions executed by Israelis in most European countries, in respect of which they were debited in NIS, constitutes a violation of the agreement with the credit-card holders. The relevant period is from December 1, 2001 to March 31, 2005.

In the discussion of this petition, the court proposed conclusion of the proceedings by way of a settlement. The parties gave notice of their consent to the proposal of the court. This notification by the parties was granted the status of a verdict on July 23, 2009.

Pursuant to the verdict, the Company and Europay will establish a scholarship fund in the amount of NIS 1,440,000 to provide scholarships to students from peripheral communities. In addition, the representative of the applicant was paid a fee of NIS 300,000 plus VAT, and the claimant was paid compensation in the amount of NIS 25,000.

3. In February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements, in violation of the provisions of the Banking Rules (Service to Customers) (Fees), 5768-2008. The requested remedy is a refund of the charges performed. At this early stage, it is difficult to estimate the probable outcome of these proceedings.

Contingent Liabilities

Indemnification of directors: The Company has undertaken a commitment to indemnify directors of the Company. The amount of the indemnification to be provided by the Company under this commitment to all directors of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its shareholders' equity, according to its financial statements as of June 30, 2004 (which amounted to NIS 440 million).

Objectives and Business Strategy

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

1. Maintaining the level of revenues and profitability and generating value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the club strategy.
5. Expansion in the area of credit and financing for private and business customers.

6. Maintaining differentiation and uniqueness of the private brand Isracard.

7. Maintaining the Company's image and proprietary standing, and continued positioning as a market leader.

8. Extending collaborations with merchants.

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

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

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

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

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 actions, system failures, and external events.

Risks are managed pursuant to Proper Conduct of Banking Business Directive No. 339 and in compliance with the Basel II directives.

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 function was updated in the format outlined by the Bank of Israel. In order to manage and minimize risks, the Company makes use of supporting computerized systems, among other means. (For further details, see the section on Basel II).

Operational Risks

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

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

As part of the management and control of operational risks, and as part of the compliance with the Basel II directives in this area, the following steps have been taken:

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

The Company does not actively create exposure to market risks. Ongoing management of these risks is therefore aimed at monitoring of the risks in relation to the policies established by the Company.

The Company's market risk management policy for 2009 was adjusted to the Basel II directives and approved by the Board of Directors of the Company. This policy includes limits on financial exposures. The limits are aimed at reducing the damage that may be caused by changes in the various markets and in rates of interest, foreign currency, the CPI, and shares.

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

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

In order to implement the requirements of its market risk management policy, the Company has purchased an asset and liability management system, which is currently in the final stages of implementation at the Company's Finance and Administration Division.

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 liquidity 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. For further details, see the section "Credit Risk Minimization (CRM) – Hedging of External Exposures."

B. Interest-rate exposure

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

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

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

	December 31, 2009				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	11,010	168	88	11	11,277
Amounts receivable in respect of derivative financial instruments	10	-	-	-	10
Financial liabilities	10,226	51	69	-	10,346
Amounts payable in respect of derivative financial instruments	10	-	-	-	10
Net fair value of financial instruments	784	117	19	11	931

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 Company is in the process of implementing a computerized system for the administration of monitoring of the liquid means under its ownership and the liquidity risk to which it is exposed at any time.

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 consolidated Company was given as credit to cardholders and merchants, and invested in deposits with banks in shekels and in marketable bonds of the Israeli government.

D. Exposure to prices of securities

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

E. Derivative financial instruments

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

The only activity in derivative financial instruments permitted to the Company is for the purposes of hedging. For this activity, the Company has used a limited number of forward contracts to hedge US dollar exposure against the shekel, and has hedged interest-rate exposures through an IRS transaction.

The results of hedging activity are included in the statement of profit and loss on the date when the results of the transactions in respect of which the hedging transactions were performed are reflected.

2. Policy Execution and Control of Market-Risk Management

The Company's existing exposure to market risks, as described in Section 1 above, is immaterial, and no significant changes are expected in the manner of management of risks as a result of these preparations.

Credit Risks

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

The Company's credit policy for 2009 was approved 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 Credit Control Unit reports to the Head of Credit and Financial Services. The unit was established in 2007, within the Company's policy of expanding corporate and consumer credit granting. The unit also handles credit control and monitoring of the Group's borrowers, in accordance with customary practice at financial institutions of this type.

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 21 million.

Credit Exposure to Foreign Financial Institutions

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

Capital Adequacy

The Company assesses its capital adequacy routinely. Starting with the financial statements as of December 31, 2009, the Company presents the standard approach to the calculation of capital adequacy, in accordance with the Basel II recommendations.

The capital adequacy in the financial statements is presented in accordance with Directive 311, Minimum Capital Ratio, of the Proper Conduct of Banking Business Directives and in accordance with the Basel II directives.

The assessment is performed by a summation of capital and sorting of assets by risk rates (each directive contains different definitions for asset weighting) and market-risk evaluations, with the addition of operational risk, in a calculation referring to the capital adequacy ratio under the Basel II directives only. Capital adequacy is determined by calculating the rate of capital out of total assets, weighted by the risk rate, as noted above, plus the market risk and the operational risk (in the calculation according to Basel II only).

Basel II

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

In the first stage, a quantitative survey was performed to assess the capital allocation required in order to implement the recommendations under various assumptions (QIS5), and a qualitative gap survey was performed for the implementation of Pillars I and II of the recommendations. As of December 2009, the Company has implemented the Basel II directives, as established by the Supervisor of Banks in the circulars and implementation guidelines. The Company has adopted the standard approach to the management and control of the various risks.

During 2009, current calculations were performed for Pillar I in the format of Basel II, and reported to the Bank of Israel. In addition, steps are being taken to comply with the reporting terms according to Pillar II. For disclosures under Pillar III, see the section on Basel II, Pillar III, below.

Prevention of Money Laundering and Terrorism Financing

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

- The Money Laundering Prohibition Law, 5760-2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 5761-2001.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive has recently been updated).

During 2009, the Company expanded the means used in the past in order to improve the efficiency of the Company's actions as required by law.

In the area of merchants, in the first quarter the Company continued to work to complete the process of receiving information and documents required under the Money Laundering Prohibition Order from merchants whose accounts were opened prior to the inception of the Order. Activity with merchants who did not complete this process by March 12, 2009, as required by the Order, was blocked, and funds owed to these merchants are detained at the Company until completion of this process.

The Company expanded its activity in the area of control with regard to customers and merchants defined as high risk.

The Company routinely operates controls to ensure that it has all of the information and documents required by law, and acts to eliminate any localized gaps discovered.

The training system has been expanded and improved, and employees of the Company are required to maintain current knowledge in this area through a computerized tutorial. In addition, specific training sessions were held for the marketing and commercial departments.

The reporting system, which is the basis for reports to the Israel Money Laundering Prohibition Authority, has been expanded, and new reports have been defined on the system for alerts of unusual transactions.

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

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

Significant Accounting Policies

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

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

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

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

In determining the fairness of the provision, Management relies on past experience with regard to the estimated future rate of utilization of “Stars” accumulated by cardholders and on the forecast cost per “Star,” as updated from time to time.

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 employee-employer relationships are based, among other considerations, on actuarial calculations.

These provisions include a liability for "Jubilee Grants," a liability for compensation for unutilized sick leave, severance pay, non-pension post-retirement benefits, and pension-related liabilities in respect of voluntary-retirement programs. The actuarial calculations are mainly based on assumptions and estimates, which rely on past experience and various statistics. The liabilities include a real wage increment of 1% per year, and are discounted at a factor of 4% per year, as stipulated by the Supervisor of Banks. 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. The credit portfolio is a significant component of the Company's asset portfolio; therefore, 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.	Minor
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.	Minor
1.2. Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Minor
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.	Minor

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.	Minor
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.	Minor
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.	Minor
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. The Company is aided by a system of legal counsel.	Minor
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.	Minor

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, including 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). The operation of the Technical Interface led to an increase in competition in the acquiring segment, as it allows merchants to switch acquirers in the MasterCard and Visa brands at their discretion.	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.	Major
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, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Medium

Risk factor	Brief description	Effect
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.	Major
12. Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular the MasterCard organization, may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of Europay (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Major
13. Technological changes	Technological changes leading to material developments in the areas of issuance and/or acquiring, or the development of new products in these areas, may change the Company's business model and exert an adverse effect on its business results. Failure to keep up with the pace of technological changes could reduce the use of the Company's credit cards and lead to damage to its income.	Minor
14. Dependence on a material supplier	The Company, like the other credit-card companies in Israel, is materially dependent on ABS, which operates a system for the collection of transactions executed in credit cards in Israel for these companies, operates the local interface, and operates the Inter-Bank Settlement Center (Masav).	Major

Disclosure Regarding the Internal Auditor

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

Mrs. Orit Lerer resigned her appointment as Chief Internal Auditor of the Company on January 1, 2010, due to her appointment to the position of the head of an area on the Board of Management of Bank Hapoalim. She was replaced by Mr. Jacob Orbach, who has served as Chief Internal Auditor of the Company as of January 1, 2010.

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

The following report refers to the term of service of Mrs. Orit Lerer as the Internal Auditor of the Company.

Mrs. Lerer has worked at the Bank since 1977, and is employed there full-time. She holds a B.A. degree in Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mrs. Lerer meets the conditions stipulated in Section 3(A) of the Internal Audit Law.

Mrs. Lerer is not an interested party of the Company or its subsidiaries, and holds no other office in addition to her position as Chief Internal Auditor of the Bank and Internal Auditor of some of the subsidiaries in the Group, including the Company, as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

Internal audit employees comply with the directives of Section 8 of the Banking Rules (Internal Audit), 5753-1992.

The Internal Auditor reported the findings of audit reports to the Chairman of the Board of Directors, the Chairman of the Audit Committee of the Board of Directors, and the CEO of the Company.

Mrs. Lerer was not remunerated by the Company. Auditing is supplied through outsourcing, and the Company pays 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.

Approximately 3 auditor positions were invested at the Company in 2009. The volume of manpower in internal auditing is determined according to a multi-year work plan, which is based on a risk survey.

Internal auditing operates in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2009 was derived from the multi-year work plan, which is based on the following, among other things: risk assessment at audited units; audit rounds; and findings discovered in previous audits.

The internal audit work plan also refers to the Company's subsidiaries.

The audit work plan was formulated by Internal Audit and submitted for discussion by the Audit Committee, then discussed and approved by the Board of Directors, taking note of the Audit Committee's recommendations.

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

Internal auditing operates under laws, regulations, directives and guidelines of the Supervisor of Banks, professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Board of Directors' 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 internal auditing at the Company complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Internal auditing is performed by auditors who are employees of the Bank. 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 audit reports, including periodic summaries, are submitted in writing. Upon publication, audit reports are presented to the Chairman of the Board of Directors, the CEO of the Company, the Chairman of the Audit Committee, and the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

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

A summary of internal audit activity for 2008 was submitted to the Audit Committee on April 6, 2009 and discussed by the committee on June 25, 2009. A summary of audit activity for 2009 is expected to be submitted during the first quarter of 2010.

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

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

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

The Board of Directors

In 2009, the Board of Directors of the Company continued to set forth the Company's policy and the guiding principles for its activity and establish directives on various matters.

15 meetings of the Board of Directors and 15 meetings of the Audit Committee were held in 2009.

Directors with Accounting and Financial Expertise

Pursuant to the Public Reporting Directives of the Supervisor of Banks, the Company must specify the minimum number of directors with "accounting and financial expertise" which it has determined should serve on the Board of Directors and the Audit Committee. The Board of Directors of the Company has determined that the appropriate minimum number of directors with accounting and financial expertise on the Board of Directors and the Audit Committee is two.

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

Members of the Board

Irit Izakson

Acting Chairperson of the Company as of the beginning of October 2008.

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

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

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

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

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

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

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

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

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Avi Idelson

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

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

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

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

Also a member of the board of directors of the following companies: Europay, Poalim Express, Aminit, and Mehadrin Ltd.

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

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

B.A. in Sociology and Education Administration, Tel Aviv University.

M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development (did not receive a degree due to non-completion of thesis).

Courses in banking at Bank Hapoalim.

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

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

Lilach Asher-Topilsky

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

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

Also serves as a director at Europay.

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

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

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

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

M.B.A., Kellogg School, Northwestern University, U.S.

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

Director with accounting and financial expertise.

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

Yair Ben-David	Attorney, owner of a legal practice. Member of the Board of Directors of the Company as of May 1, 2006. Member of the Audit Committee of the Board of Directors of the Company as of April 26, 2009. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Also a member of the board of directors of the following companies: Timna Copper Mines Ltd., Haagam Haneelam Timna Ltd., Dan Shiraz Investments Ltd., and Europay; and as a member of the audit committee of Europay. L.L.B., Tel Aviv University. To the best of the knowledge of the Company and of Mr. Y. Ben-David, he is not a family member of another interested party of the corporation.
Jacky Wakim	Member of the Board of Directors of the Company as of September 28, 2005. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Also serves as a member of the Audit Committee of the Board of Directors of the Company. As of November 19, 2009, member of the IT Committee of the Board of Directors of the Company. Head of the Finance Administration of the City of Haifa. Also a member of the board of directors of the following companies: Mifal Hapayis, Local Government Economic Services Insurance Agency (1992) Ltd., Local Government Economic Services Ltd., Europay, Poalim Express, and Aminit. Member of the Advisory Council to the Bank of Israel.

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

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

M.B.A., Thames Valley University.

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

L.L.B., Ono Academic College.

C.P.A.

Director with accounting and financial expertise.

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

Ron Weksler

Head of Southern Region at Bank Hapoalim B.M.

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

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

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

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

Doctor of philosophy and Ph.D. in Public Administration, Bar Ilan University.

M.B.A., Bar Ilan University.

L.L.B., Tel Aviv University.

B.A. in Accounting, Tel Aviv University.

Director with accounting and financial expertise.

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

Eldad Kahana

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

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

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

Also a member of the board of directors and audit committee of Aminit.

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

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

Shmuel Lachman

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

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

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

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Europay, Aminit, Poalim Express, Pangaea Israel (T.R.) Ltd., S.I.R.N. (2002) from the Founder of the Association for Soldiers Ltd., Shiral 10 Ltd.; Chairman of the Finance Committee and Member of the Governing Board of Shenkar College.

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

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

M.Sc., Industry and Management, Technion.

B.Sc., Industry and Management, Technion.

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

Director with accounting and financial expertise.

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

David Luzon

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

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

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

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

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

Member of the Computerization Committee of the TASE.

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

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

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

Ran Oz

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

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

Also a member of the board of directors of the following companies: Europay, Poalim Express, Aminit, Diur B.P., Sure-Ha International Ltd., Poalim Capital Markets Investments Ltd., Poalim Capital Markets and Investment Holdings Ltd.

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

Also served, in the last five years or during part of that period, on the board of directors of the following companies: Bezeq International, Pelephone Communications, DBS Satellite Services (1998) Ltd., Bezeq Zahav Holdings Ltd., Walla, NICE Systems GmbH, NICE CTI Systems UK Ltd., NICE Systems Canada Ltd., NICE Technologies Ltd., IEX Corp BV, FAST Video Security (UK) Ltd., NICE Switzerland AG, NICE Systems Asset Management LLC, NICE APAC Ltd., NICE Interactive Solutions India Private Ltd., NICE Systems (Singapore) PTE Ltd., NICE Systems Australia PTY, NICEeye Ltd., NICE Systems Inc., IEX Corp., and NICE Systems Latin America Inc.; however, he no longer serves at these companies.

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

B.A. in Accounting and Economics, Hebrew University of Jerusalem.

Director with accounting and financial expertise.

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

Moshe Amit	Member of the boards of directors of various companies. Member of the Board of Directors of the Company as of May 20, 2004. Also a member of the board of directors of the following companies: Europay; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets – Investment Bank Ltd.; Tempo Beer Industries Ltd.; Blue Square Chain Properties & Investments Ltd.; AFI Development Plc, Cyprus. Chairman of the board of directors of the following companies: Delek Israel Fuel Company Ltd., Global Factoring Ltd. Until December 2003, member of the Board of Management of Bank Hapoalim. In the last five years or during part of that period, served on the board of directors of the following companies: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd.; and as chairman of the board of Continental Bank Ltd.; however, he no longer serves at these companies. B.A. in Social Sciences, Bar Ilan University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. M. Amit, he is not a family member of another interested party of the corporation.
Uriel Paz	Member of the Board of Directors of the Company as of November 18, 2003. Also serves as a director at Europay. In the last five years or during part of that period, served in various positions at Bank Hapoalim B.M.: From December 14, 2007 to September 24, 2009, member of the Board of Management and Head of Retail Banking, Bank Hapoalim B.M. From March 2005 to December 2007, Hasharon Regional Manager, Bank Hapoalim. From June 2002 to March 2005, Head of Marketing and Strategic Planning Area, Bank Hapoalim. M.A. in Economics, 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. U. Paz, 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 February 15, 2005.

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

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

Also a member of the board of directors and chairman of the audit committee of the following companies: Europay, Aminit, and Poalim Express.

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: 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.

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.

Dan Dankner

Served as a member of the Board of Directors of the Company from December 30, 2002 to August 2, 2009. Served as Chairman of the Board of Directors of the Company in the period from October 30, 2002 to September 25, 2009.

Tamar Ben-David

Served as an external director on the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks from June 25, 2002 to March 17, 2009.

Zion Kenan

Served as a member of the Board of Directors of the Company from November 18, 2003 to June 18, 2009.

Haim Krupsky	Served as a member of the Board of Directors of the Company from July 31, 1994 to November 25, 2009. Served as Deputy Chairman of the Board of Directors of the Company in the period from February 1, 2009 to November 2009. Also served as CEO of the Company from September 1, 1994 to January 31, 2009.
Dafna Pelli	Served as a member of the Board of Directors of the Company from August 18, 1999 to December 31, 2009.

Senior Members of Management

Dov Kotler

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

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

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

Member of the board of directors of Amir Marketing and Investments in Agriculture Ltd.

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

M.B.A., Financing Section, Tel Aviv University.

B.A. in Economics, studies in International Relations, Tel Aviv University.

AMP (Advanced Management Program), Harvard University.

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

Eli Burg

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

Head of Trade and Sales.

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

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

Ronen Zaretsky

Member of the Management of the Company as of December 18, 2005.

Head of Information Technology and Operations.

In the last five years or during part of that period, commanded the IDF Manpower Computing Center and held the rank of Colonel.

M.A. in Public Administration, Bar Ilan University.

B.A. in Computer Science, Economics, and Criminology, Bar Ilan University.

IDF Center of Computing and Information Systems (Mamram), Computer School Track: programming, systems analysis, project management, technician, practical engineer.

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

David Cohen

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

Head of Customer Relations.

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

Alberto Langa

Member of the Management of the Company as of August 1976.

Head of Security and Risk Management.

Serves as a director at Global Factoring Ltd. (as of August 13, 2009).

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

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

Pinhas Shalit

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

Head of Finance and Administration.

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

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

C.P.A.

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

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

Ami Alpan	Member of the Management of the Company as of February 27, 2007. Head of Strategic Planning. Serves as a member of the board of directors of the following companies: I.M.T. – The Central Vehicle Distribution Company Ltd. (as of December 25, 2008), Life Style Customer Loyalty Club Ltd., and Life Style Financing Ltd. (as of January 6, 2009). M.B.A., Tel Aviv University. B.A. in Management and Economics, Tel Aviv University. To the best of the knowledge of the Company and of Mr. A. Alpan, he is not a family member of another interested party of the corporation.
Ron Cohen	Member of the Management of the Company as of February 27, 2007. Head of Credit and Financial Services. Served as Head of Customer Relations at the Corporate Area, Bank Hapoalim B.M. Serves as a member of the board of directors of the following companies: Global Factoring Ltd. (as of August 13, 2009), Kidum Mivne Iguach Ltd. (as of October 14, 2009). M.A. in Business Administration, Marketing, and Financing, Hebrew University of Jerusalem. B.A. in Economics and International Relations, Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party of the corporation.
Moshe Livnat	Member of the Management of the Company as of March 1998. Head of Marketing and Public Relations. B.A. in Economics and Business Administration, Haifa University. To the best of the knowledge of the Company and of Mr. M. Livnat, he is not a family member of another interested party of the corporation.

Ayala Tidhar

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

Head of Advertising, Head of Local Cards Unit.

B.A. in Hebrew Language and Literature, Bar Ilan University.

Diploma in Interior Decorating, Technion.

Arieli School of Marketing and Advertising.

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

Haim Krupsky

Served as CEO of the Company from September 1, 1994 to January 31, 2009, and as CEO of the credit-card companies Europay, Aminit, and Poalim Express and as a director of the Company from July 31, 1994 to November 25, 2009. Served as Deputy Chairman of the Board of Directors of the Company in the period from February 1, 2009 to November 2009.

David Doron

Served as a Member of Management of the Company and Head of Human Resources and Organization from August 1989 to the end of October 2009.

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 for the end of 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.

During the year, the mapping and documentation of the processes, including new material processes, were updated, using the prevalent methodologies; and the effectiveness of the procedures for the internal control of financial reporting was tested through a renewed examination of the main controls for 2009.

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, 2009, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of financial reporting.

Wages and Benefits of Officers[1]

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

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

	Salary	Share-based payment transactions	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.	Total salaries and related expenses
Irit Izakson*	1,303	4,151[(5)]	537	5,991
Dov Kotler	1,118	3,842[(5)]	382	5,342
Haim Krupsky[6]	1,176	338[(4)]	(447)	1,067
Danny Adiri	393	-	1,060	1,453
Dudi Doron	481	-	1,580	2,061

Wages of Senior Officers for the Year Ended December 31, 2008

	Salary	Share-based payment transactions	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.	Total salaries and related expenses
Haim Krupsky	1,361	(976)	216	601
Ronen Zaretsky	604	-	158	762
Ron Cohen	661	(116)	87	632
Pinhas Shalit	629	-	136	765
Dalia Kaizerman	671	(319)	127	479

* Salary calculation based on 15 months.

For explanations of these tables, see pages 88-90.

Other payments(3)	Loans granted under benefit terms: Balance as of Dec. 31, 2009	Average term to maturity (in years)	Benefit granted during the year(7)	Loans granted under ordinary terms(8)	Value of additional benefits	Payments by controlling shareholders
1,036	-	-	-	33	166	121
1,216	-	-	-	35	78	-
1,722	-	-	14	20	114	(2)
1,172	-	-	-	19	130	633
29	-	-	-	20	46	1,460

Other payments(3)	Loans granted under benefit terms: Balance as of Dec. 31, 2008	Average term to maturity (in years)	Benefit granted during the year(7)	Loans granted under ordinary terms(8)	Value of additional benefits	Payments by controlling shareholders
592	164	3	2	38	153	2343
88	-	-	-	14	73	-
221	-	-	-	44	30	-
-	33	-	1	28	32	-
199	211	-	5	71	99	-

Explanations of Tables on P. 86-87

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

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

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

4. The benefit is in the form of phantom unit options, which impart a monetary grant based on the difference between the price of the Bank Hapoalim share on the TASE and the base price. The exercise price is NIS 19.39 per unit for Mr. Haim Krupsky, NIS 18.75 per unit for Mr. Ron Cohen, and NIS 18.90 per unit for Ms. Dalia Kaizerman. The value of the benefit in 2008 is negative, as a result of the decline in price of the Bank Hapoalim share in 2008.

5. As described in Note 15.F. to the Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration of Auditors[1][2]

	Consolidated		The Company	
	2009	2008	2009	2008
	(NIS thousands)			
For audit activities[3]:				
Joint auditors	1,398	722	1,386	702
For audit-related services[4]:				
Joint auditors	-	-	-	-
For tax services[5]:				
Joint auditors	56	78	56	61
For other services[6]:				
Joint auditors	37	371	36	352
Total	93	449	92	413
Total remuneration of auditors	**1,491**	**1,171**	**1,478**	**1,115**

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

(2) Includes remuneration paid and remuneration accrued.

(3) Audits of annual financial statements and reviews of interim reports; also includes an audit of the internal control of financial reporting (SOX 404). In 2009, also includes the SOX 404 provision in respect of 2008.

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

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

(6) Mainly includes routine processes.

Basel II, Pillar III

On December 31, 2009, the Company adopted the working framework for capital measurement and adequacy, as published by the Supervisor of Banks based on the Basel II directives. The directive applies new capital allocation requirements for various types of risk. In addition, the directive changes the manner of calculation of regulatory capital.

In October 2009, the Supervisor of Banks issued the "Temporary Order – Implementation of Certain Disclosure Requirements According to Pillar III of the Basel II Directives." The objective of Pillar III of the directive is to encourage market discipline by providing market participants with the option of publishing key items of information regarding the capital adequacy of banking corporations and credit-card companies through a mechanism of disclosure requirements.

The following table surveys the required disclosures under Pillar III:

Table number	Subject	Qualitative disclosure	Quantitative disclosure
		Page	
1.	Application	94	-
2.	Capital structure	95	96
3.	Capital adequacy	96	97
4.	Credit risk – general disclosure requirements	97	103
5.	Credit risk	107	-
6.	Credit risk – disclosure in portfolios treated using IRB approaches (not relevant to the Company)	-	-
7.	Credit risk mitigation (CRM)	107	108
8.	General disclosure regarding exposures related to counterparty credit risk	109	-
9.	Securitization (not relevant to the Company)	-	-
10.	Disclosure by companies using the standard approach	110	113
11.	Disclosure by companies using the internal models approach in respect of market risk in trading books (not relevant to the Company)	-	-
12.	Operational risk	113	113
13.	Disclosure regarding positions in shares in the banking book	115	117
14.	Interest-rate risk in the banking book	117	118

Effect of Initial Implementation of Basel II Directives

As of December 31, 2009, the measurement method of the ratio of capital to risk-adjusted assets has been changed. The following is a comparison of the calculation of the capital ratio according to the directives of Basel II with the calculation according Directives 311 and 341 of the Supervisor of Banks, “Minimum Capital Ratio” and “Capital Allocation in Respect of Exposure to Market Risks.” Data as of December 31, 2009 according to Basel I are presented in order to clarify the effect of the change in the measurement method of the ratio of capital to risk-adjusted assets and allow comparisons to previous periods.

A. Consolidated Data

1. Capital for the calculation of the capital ratio	Dec. 31, 2009		Dec. 31, 2008
	NIS millions		
	Basel II	Basel I	Basel I
Tier 1 capital, after deductions	1,089	1,084	926
Total overall capital	**1,089**	**1,084**	**926**

2. Weighted balances of risk-adjusted assets	Dec. 31, 2009				Dec. 31, 2008	
	Basel II		Basel I		Basel I	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:						
Credit risk	7,226	651	4,437	399	3,893	350
Market risks – foreign currency exchange rate risk	30	3	30	3	31	3
Operational risk	1,183	106	-	-	-	-
Total weighted balances of risk-adjusted assets	**8,439**	**760**	**4,467**	**402**	**3,924**	**353**

3. Ratio of capital to risk-adjusted assets	Dec. 31, 2009		Dec. 31, 2008
	Percent		
	Basel II	Basel I	Basel I
Ratio of tier 1 capital to risk-adjusted assets	12.9	24.3	*23.6
Ratio of overall capital to risk-adjusted assets	12.9	24.3	*23.6
Minimum overall capital ratio required by the Supervisor of Banks	9	9	9

* Reclassified.

The ratio of capital to risk-adjusted assets in accordance with the Basel II directives was 12.9%, as compared to 24.3% under Proper Conduct of Banking Business Directive No. 311 ("Minimum Capital Ratio") and 341 ("Capital Allocation in Respect of Exposure to Market Risks"). The decrease resulted from an increase in the amount of approximately NIS 5 million in the capital base, and an increase in the amount of approximately NIS 3,972 million in the weighted total of risk-adjusted assets.

The capital base as of December 31, 2009, in accordance with the Basel II directives, amounted to a total of approximately NIS 1,089 million, versus NIS 1,084 million under Proper Conduct of Banking Business Directive 311. The increase in the capital base due to the implementation of the directive resulted from the inclusion, for the first time, of minority interests' rights to the capital of consolidated subsidiaries in the amount of NIS 5 million.

The weighted total of risk-adjusted assets as of December 31, 2009 under the Basel II directives amounted to approximately NIS 8,439 million, versus NIS 4,467 million under Proper Conduct of Banking Business Directive 311 ("Minimum Capital Ratio") and 341 ("Capital Allocation in Respect of Exposure to Market Risks"), an increase of approximately NIS 3,972 million.

The increase in the balance of risk-weighted assets resulted from the allocation, for the first time, of risk-adjusted assets in the amount of approximately NIS 1,183 million in respect of operational risk, and an increase in risk-weighted assets in respect of credit risk, in the amount of approximately NIS 2,789 million. The increase in the balance of weighted assets attributed to credit risk mainly resulted from unutilized credit facilities in the amount of NIS 2,080 million.

Application

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

The Company has four consolidated subsidiaries: Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Europay (Eurocard) Israel Ltd., and Global Factoring Ltd.

In general, the capital requirements of the Company are based on its consolidated financial statements, which are prepared in accordance with Israeli GAAP and the directives and guidelines of the Supervisor of Banks. However, as of December 31, 2009 there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Structure of Regulatory Capital

Under the Basel II directives, banking corporations must maintain a ratio of capital to risk-adjusted assets no lower than 9% of the weighted total risk-adjusted assets in their balance-sheet assets and off-balance-sheet items.

The measurement of capital for the purposes of this directive is based on the division of capital into tier I capital, tier II capital, and tier III capital (which is held against market risks), less the balance of goodwill in the books of the Company.

Tier I capital includes shareholders' equity and minority interests' rights to the capital of consolidated companies, less goodwill.

Limits on the Capital Mix

The directive establishes limits on the capital mix, in each tier. The main limit with regard to the Company is the following:

- Total core capital shall constitute at least 70% of tier I capital after the required deductions from the capital of this tier only.

Structure of Capital

The following table shows the composition of capital for the purpose of calculating the capital ratio:

	In NIS millions
Tier I capital	
Paid-up common share capital	*-
Retained earnings	1,072
Minority rights to shareholders' equity of consolidated companies	5
Total core capital	**1,077**
Other capital instruments	22
Less: Goodwill	10
Less: Net losses in respect of adjustments to fair value of securities available for sale	(*-)
Total tier I capital	**1,089**
Overall eligible capital	**1,089**

* Amount lower than NIS 0.5 million.

Capital Adequacy

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

The Company conducts an internal process of assessment of its capital adequacy, within which a multi-year plan has been formulated for compliance with capital adequacy targets. This plan takes into consideration the existing and future capital needs of the Company, in accordance with its strategic plans, against the available sources of capital. The plan refers to all present and future risk-adjusted assets of the Company, according to the allocation requirements under Basel II, against capital adequacy targets and risk appetite. The Company also intends to test these objectives under various extreme scenarios in order to ensure compliance with capital adequacy limits even under exceptional conditions.

The following table lists risk-adjusted assets and capital requirements in respect of credit risk, market risk, and operational risk, as of December 31, 2009.

	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions	
Credit risk:		
Sovereign	-	-
Public sector entities	2	*-
Banking corporations	4,734	426
Corporations	619	56
Retail to individuals	1,217	110
Small businesses	286	26
Other assets	368	33
Total credit risk	**7,226**	**651**
Market risks – foreign currency exchange rate risk	30	3
Operational risk	1,183	106
Total weighted balances of risk-adjusted assets/capital requirements	**8,439**	**760**

Overall capital ratio and tier I capital ratio	
Capital for the calculation of the capital ratio	1,089
Ratio of tier I capital to risk-adjusted assets	12.9%
Ratio of overall capital to risk-adjusted assets	12.9%
Minimum capital ratio required by the Supervisor of Banks, Pillar I	8%
Minimum capital ratio required by the Supervisor of Banks, Pillar II	1%
Overall minimum capital ratio required by the Supervisor of Banks	9%

Credit Risk – General Disclosure Requirements

In the course of the activity of Isracard in granting credit to customers, doubtful debts and bad debts occasionally arise, with regard 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 group provision.

Specific Provision

The Company performs 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 carries out extensive efforts to collect the debts. The Company restructures and re-spreads debts, as necessary. A provision for doubtful debts is performed in respect of debts in arrears for more than 90 days, in accordance with the Company's estimates regarding the probability of collection, at the level of the individual debt (in material amounts). The estimate of the probability of collection is performed following a detailed analysis of the data regarding the debt, along with contact with the customer. Concurrently, the Company continues its collection efforts, including through legal and other functions.

Group Provision

The Company performs an additional provision for doubtful debts on a group basis.

The calculation of the group provision is divided among 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, after all collection proceedings have been exhausted, including legal processes, and after approval by the authorized functions at the Company.

Loans in arrears – Debts where more than 30 days have elapsed from the date on which the Company was entitled to receive a payment. Debts are in arrears when either principal or interest has not been paid. The state of the arrears is established according to the type of instrument.

Impaired debts – Debts examined on an individual basis and more than 90 days in arrears, unless well secured and in the process of collection, as well as any other debt where the Company has determined that collection is in doubt.

Management of Credit Risks

Credit risk is one of the risks managed, monitored, and controlled by the Company, as required by the nature of its activity as a company engaged in extending credit. The Company is in the process of improving its credit risk management policy and corporate governance, in accordance with Pillar II of Basel II. The credit risk management process helps the Company examine risk according to the component product mix.

Activity of the Company in the Area of Credit Risk Management

- The Company sets limits for credit granting according to credit ratings, with segmentation by credit products (according to risk weightings), in order to avoid damage to the quality of the credit portfolio of the Company, and thereby reduce credit risk arising from borrower quality.
- The Company carries out internal control over credit risk management by assigning a risk weighting to each credit product, according to its derived risk. For example, in certain cases the type of product sold by the merchant and the supply times are taken into consideration. The longer the supply time of the product, the greater the probability of a failure to deliver the product to the customer.
- The Company has set sectorial limits in order to prevent sectorial concentration in its credit portfolio.
- The Company acts in accordance with the guidelines of the Bank of Israel in Directive 313, Sole Borrowers and Borrower Groups. Operating according to this directive reduces the risk of borrower concentration.

Principles of Credit Concentration Risk Management

- Within Pillar II of Basel II, the Company is preparing to calculate the internal capital allocation required against concentration risks.
- Borrower concentration – Routine monitoring of the major borrowers of the Company, compliance with limits according to the requirements of Proper Conduct of Banking Business Directive 313 (Sole Borrowers and Borrower Groups) of the Bank of Israel. In addition, the Company reports to the Bank of Israel each quarter, according to the provisions of the directive.
- Diversification over a range of credit products – The Company's credit portfolio is composed of a variety of credit products with different risk levels. These credit products are: credit through credit cards, loans through credit cards, loans for the purchase of motor vehicles, loans to private individuals, loans to merchants, advances and early payments to merchants, check payment guarantees and discounting, and factoring.

Determining Customers' Risk Rating Based on Statistical Models

- The Company routinely invests in models for rating credit risk (for the purpose of risk management, rather than capital allocation) of private and corporate customers. These models are adjusted to the credit products, economic conditions, and target population of the credit.

- The models are divided as follows:
  1. The AS (Application Scoring) model, for new customers.
  2. The BS (Behavior Scoring) model, a behavioral model for customers of the Company.
  3. The SME (Small-Medium Enterprises) model, a model for business customers.

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

- Developments of risk ratings in the credit portfolio are routinely controlled and monitored.

- Models are periodically tested for optimization and calibration.

Establishment of Authorization Hierarchy in Credit Granting

The hierarchy is established in order to protect the quality of the Company's credit portfolio, while supervising credit authorizations in accordance with the appropriate professional authority. Credit is granted by the Company according to a hierarchy of authorizations, including:

- Authorization for maximum exposure according to the authority of the function handling the credit (based on a risk rating model).

- Definition of authorizations to exceed limits for exceptional transactions, according to the authority of the function handling the credit.

- Definition of a hierarchy of authorizations in establishing the interest rate of the credit.

Exposure to Financial Institutions

The Company's activity entails exposure to financial institutions, in Israel and globally:

- Credit-card companies in Israel and globally – Cross-acquiring activity is conducted between the Company and credit-card companies in Israel; in addition, exposure exists to global credit-card companies.

- Banks in Israel – Credit-card activity is conducted with customers' accounts with banks in Israel.

- Foreign financial institutions – Activity with foreign countries or activity of foreigners in Israel: foreign-currency deposits with financial institutions overseas. The Company's exposure is not material.

Credit exposure to financial institutions arises from:

- Transactions in credit cards issued by banks with which the Company has arrangements – The exposure arises when the Company uses its own funds to finance the time gap from the date of crediting of the merchant to the date of the transfer of payments by the Banks Under Arrangement. In the event that a bank becomes insolvent, there is a risk that the funds may not be transferred to the Company, which will sustain losses from its equity capital.

- Deposits with banks – Deposits with banks performed by the Company create automatic exposure to the bank.

Independent Supervision

The Chief Risk Officer conducts independent supervision of the manner of management of credit risks at the Company. This supervision includes:

- Examination of the compliance with the directives of the credit policy and the guidelines of the Bank of Israel.

- Active involvement in establishing credit policy, including credit limits; control of the implementation of credit policy.

- Identification of new risks and emerging risks.

- Reporting the results of the monitoring to senior management and 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 Management of the Company is provided with data on the Company's credit portfolio mix each month. This mix presents the segmentation of the portfolio in terms of credit products, sectors, risk ratings, geographical distribution, compliance with regulatory and internal limits, risk-return analyses, and more.

- The credit portfolio mix is presented to the Board of Directors of the Company each quarter.

- The Chief Risk Officer submits an independent report on the control of credit risk management at the Company each month.
- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.
- Working procedures at the Company are regularly updated 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 detailed below:

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

* With regard to unutilized credit facilities in credit cards for holders of retail cards issued by the Company, the repayment ability of retail cardholders is monitored effectively, using various control tools, including the use of behavioral ranking models and monitoring activities performed routinely by the Security Department.

With regard to unutilized credit facilities in credit cards for holders of retail cards issued by the Banks Under Arrangement, approvals were obtained from the banks regarding the existence of effective monitoring of the repayment ability of the retail cardholders.

Credit Exposures

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

The following table shows the segmentation of gross credit risks, by main types of credit exposure (after deduction of the provision for doubtful debts):

Exposure	Credit risk	Type of exposure	Credit risk exposure
			In NIS millions
Retail	Balance sheet	Credit	8,605
	Off balance sheet	Credit facility	3,342
	Off balance sheet	Other	4
Small business	Balance sheet	Credit	1,183
	Off balance sheet	Credit facility	316
Corporation	Balance sheet	Credit	636
	Off balance sheet	Credit facility	139
Bank	Balance sheet	Credit	184
	Balance sheet	Deposits	493
	Off balance sheet	Credit facility	*-
Public sector	Balance sheet	Credit	4
	Off balance sheet	Credit facility	*-
Government	Balance sheet	Bonds	111
	Off balance sheet	Credit facility	1
Other assets	Balance sheet	Other assets	389

* Amount lower than NIS 0.5 million.

In NIS millions

The following table shows the segmentation of average gross credit risks, by main types of credit exposure (after deduction of the provision for doubtful debts):

Exposure	Credit risk	Type of exposure	Average credit risk exposure**
			In NIS millions
Retail	Balance sheet	Credit	8,108
	Off balance sheet	Credit facility	1,932
	Off balance sheet	Other	1
Small business	Balance sheet	Credit	1,084
	Off balance sheet	Credit facility	161
Corporation	Balance sheet	Credit	584
	Off balance sheet	Credit facility	77
	Off balance sheet	Other	1
Bank	Balance sheet	Credit	173
	Balance sheet	Deposits	573
	Off balance sheet	Credit facility	*-
Public sector	Balance sheet	Credit	4
	Off balance sheet	Credit facility	*-
Government	Balance sheet	Bonds	249
	Balance sheet	Credit	2
	Off balance sheet	Credit facility	*-
Other assets	Balance sheet	Other assets	347

* Amount lower than NIS 0.5 million.

** Average exposure calculated on a quarterly basis.

Exposure	Credit risk	Type of exposure	Problematic debt(1)	Delinquent debt(2)	Provision for doubtful debts
Retail	Balance sheet	Credit	5	*-	11
Small business	Balance sheet	Credit	1	*-	2
Corporation	Balance sheet	Credit	45	-	47
Bank	Balance sheet	Credit	-	-	*-
Public sector	Balance sheet	Credit	-	-	*-

(1) Problematic debts – More than 90 days in arrears.

(2) Delinquent debts – More than 60 days in arrears.

* Amount lower than NIS 0.5 million.

Segmentation of the Portfolio by Remaining Contractual Term to Maturity

The following table shows the segmentation 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, 2009						
	Expected future contractual cash flows – in NIS millions					
	Up to 1 year	Over 1 year to 2 years	2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years to 10 years
Deposits with banks	487	1	-	5	-	-
Bonds	100	-	-	11	-	-
Credit:						
Debtors in respect of credit cards	8,974	312	60	*-	*-	-
Credit to cardholders and merchants	999	24	1	*-	-	-
Companies and international credit-card organization	103	11	2	-	*-	-
Income receivable	16	-	-	-	-	-
Other assets	98	21	-	-	3	-
Non-monetary assets	-	-	-	-	-	-

			Balance-sheet balance			
	Over 10 years to 20 years	Over 20 years	Total cash flows	No maturity period	Non-monetary assets	Total
	-	-	493	-	-	493
	-	-	111	-	-	111
	-	-	9,347	1	-	9,340
	-	-	1,024	25	-	1,043
	-	-	116	*-	-	116
	-	-	16	-	-	16
	-	-	122	24	-	146
	-	-	-	-	350	350

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.

Amounts of exposure after risk mitigation treated using the standard approach

Credit risk weighting

The following table shows details of the credit exposure (after deducting the provision for doubtful debts) according to risk weightings, before and after credit risk mitigation:

Risk weighting	Rating	Exposure before CRM	Exposure after CRM
		In NIS millions	
0%	Unrated	132	132
20%	Rated	278	3,380
	Unrated	336	1,396
50%	Rated	17	5,809
	Unrated	50	1,754
75%	Unrated	13,284	1,797
100%	Rated	254	596
	Unrated	1,047	534
150%	Unrated	8	8

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

Exposure	Credit risk	Type of exposure	Credit risk exposure	Of which: Banks Under Arrangement responsible
			In NIS millions	
Retail	Balance sheet	Credit	8,605	7,552
	Off balance sheet	Credit facility	3,342	2,781
	Off balance sheet	Other	4	-
Small business	Balance sheet	Credit	1,183	877
	Off balance sheet	Credit facility	316	290
Corporation	Balance sheet	Credit	636	81
	Off balance sheet	Credit facility	139	76
Bank	Balance sheet	Credit	184	-
	Balance sheet	Deposits	493	-
	Off balance sheet	Credit facility	*-	-
Public sector	Balance sheet	Credit	4	*-
	Off balance sheet	Credit facility	*-	-
Government	Balance sheet	Bonds	111	-
	Off balance sheet	Credit facility	*-	-
Other assets	Balance sheet	Other assets	389	-

* Amount lower than NIS 0.5 million.

Exposure	Credit risk	Type of exposure	RWA	Allocated capital
			In NIS millions	
Retail	Balance sheet	Credit	793	71
	Off balance sheet	Credit facility	421	38
	Off balance sheet	Other	3	*-
Small business	Balance sheet	Credit	267	24
	Off balance sheet	Credit facility	20	2
Corporation	Balance sheet	Credit	556	50
	Off balance sheet	Credit facility	64	6
Bank	Balance sheet	Credit	3,057	275
	Balance sheet	Deposits	104	9
	Off balance sheet	Credit facility	1,573	142
Public sector	Balance sheet	Credit	2	*-
	Off balance sheet	Credit facility	*-	*-
Government	Balance sheet	Bonds	-	-
Other assets	Balance sheet	Other assets	367	33

* Amount lower than NIS 0.5 million.

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

From time to time the Company uses derivatives with banks, as part of its market and liquidity risk management policy, rather than for investment or other purposes.

Hedging Interest-Rate Exposures

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

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

As of December 31, 2009, a contract with a face value of NIS 10 million exists, in which a fixed interest rate of 2.3% is paid, and a floating rate to be determined each quarter is received. The contract is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

Hedging Foreign Currency Exposures

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day. The Company 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 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 credit risk 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 real-time reporting of issues that need to be addressed.

Structure and Organizational 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 limits 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 is in advanced stages of implementation at the Company. 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, gap interest rate, 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
	In NIS millions
Market risks – Foreign currency exchange rate risk	3

Operational Risk

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

	Capital requirement
	In NIS millions
Operational risk	106

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 division 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 2009 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 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 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.

Store Alliance.Com Ltd.

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

Global Factoring Ltd.

Global is a private company engaged in debtor discounting (factoring), a developing field in the Israeli credit market. The Company holds 51% of the issued capital of Global. Global is an auxiliary banking corporation, and is a subsidiary of the Company, consolidated in its financial statements. At the acquisition date, an original difference (surplus cost) was calculated and allocated to goodwill. This is a strategic investment, as part of the expansion of the Company's financing activity.

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

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

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

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

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

Kidum Mivne Iguach 1 Ltd.

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

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

Shares of MasterCard Incorporated ("MC")

The Company holds issued share capital constituting less than 1% of the shares of MC. The shares are Class B shares, which are blocked and cannot be sold on the stock market in the United States, but can be sold among members of the MC organization. From time to time, MC may permit holders of Class B shares to convert some of the Class B shares into an equal number of Class A shares (which are tradable on the stock market in the United States) and to sell these shares, subject to limits on the rates of Class B shares that can be converted and sold.

The investment presented in the financial statements is based on the historical cost.

The holding in MC shares is the result of agreements with the international MC organization. The block on trading in the shares will be lifted near the end of the first half of 2010.

Walla! Communications Ltd.

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

	December 31, 2009			
	In NIS millions			
	Balance-sheet balance	Fair value	Nature of investment	Capital requirements
Store Alliance.Com Ltd.	11		Private	1
Life Style - Customer Loyalty Club Ltd.	4		Private	*-
Life Style Financing Ltd.	1		Private	*-
IMT The Central Vehicle Distribution Company Ltd.	*-		Private	*-
Kidum Mivne Iguach 1 Ltd.	2		Private	*
MasterCard Incorporated (MC)	50		Private	5
Walla shares	1	1	Tradable	*-

* Amount lower than NIS 0.5 million.

Interest Rate Risk in the Banking Book

Exposure by segments	Israeli currency		Foreign currency and foreign currency linked
	Unlinked	Linked	
	In NIS millions		
Assets (fair value, NIS millions)	11,020	168	99
Liabilities (fair value, NIS millions)	10,236	51	69
Total exposure in the segment (fair value, NIS millions)	784	117	30
Duration of assets	0.21	0.23	0.14
Duration of liabilities	0.22	0.17	0.19
Duration of capital	0.01	0.25	0.04
Profit/loss in respect of capital assigned to the segment* (fair value, NIS millions)	(0.05)	(0.30)	(0.01)

Overall exposure	
Positions (fair value, NIS millions)	931
Loss relative to capital* (fair value, NIS millions)	0.36
Loss relative to capital*	0.04%

* As a result of a 1% increase in the interest rate.

Interest-rate risk is defined as the exposure to loss due to possible changes in interest rates on the fair value of assets and liabilities of the Company. The existence of a gap between the duration of assets and the duration of liabilities may cause erosion of the equity capital of the Company.

Duration measures the sensitivity to change (profit or loss) of equity capital in percent as a result of change in the interest rate. Data on exposure to changes in interest rates indicate that a 1% change in the interest rate would cause a minor change of 0.04% in equity capital. The duration of assets and the duration of liabilities in the unlinked Israeli currency segment are similar. There is an insignificant gap in the CPI-linked Israeli currency segment and in the foreign currency and foreign currency linked segment between the duration of assets and the duration of liabilities.

Interest-rate risks are managed by the manager of market and liquidity risks – the Head of Finance and Administration, with the assistance of the Asset and Liability Management Unit. This management is also performed through monthly reports submitted to the Board of Directors. The reports include analyses of sensitivity to changes of one percent in the interest rate. The goal of interest-rate exposure management is to manage interest-rate risks derived from the routine activity of the Company in the different linkage segments, and to take steps, if necessary, to hedge the exposure, according to estimates regarding the market, and subject to limits.

The Company has reduced its exposure to changes in interest rates by shortening durations and transitioning from fixed interest rates to floating interest rates in some financial instruments. As part of the measures to hedge exposures, a fixed-rate loan was taken and an interest-rate swap contract was purchased.

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

Tel Aviv, February 25, 2010

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2009

Table of Contents

Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31			
	2009	**2008**	**2007**	**2006**
Assets				
Cash on hand and deposits with banks	493	931	1,309	1,495
Debtors in respect of credit-card activity	10,515	*9,251	8,727	7,880
Securities	178	212	113	12
Investments in affiliated companies	2	21	21	13
Buildings and equipment	254	224	195	159
Other assets	173	*90	67	40
Total assets	**11,615**	**10,729**	**10,432**	**9,599**
Liabilities				
Credit from banking corporations	47	6	13	4
Creditors in respect of credit-card activity	10,249	9,412	9,161	8,494
Other liabilities	220	387	410	397
Total liabilities	**10,516**	**9,805**	**9,584**	**8,895**
Minority interests' rights	5	-	-	-
Shareholders' equity	1,094	924	848	704
Total liabilities and capital	**11,615**	**10,729**	**10,432**	**9,599**

* Reclassified.

Consolidated Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31			
	2009	**2008**	**2007**	**2006**
Income				
From credit-card transactions[(1)]	1,168	1,146	1,076	1,007
Profit from financing activity before provision for doubtful debts	68	74	57	53
Others	30	48	18	16
Total income	**1,266**	**1,268**	**1,151**	**1,076**
Expenses				
Provision for doubtful debts	29	**14	**7	**5
Operating expenses[(1)]	452	**405	**355	**327
Sales and marketing expenses	132	145	142	142
General and administrative expenses	69	51	44	41
Payments to banks	374	416	408	386
Total expenses	**1,056**	**1,031**	**956**	**901**
Operating profit before taxes	**210**	**237**	**195**	**175**
Provision for taxes on operating profit	57	64	53	55
Operating profit after taxes	**153**	**173**	**142**	**120**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	1	-	-	-
Net profit	**154**	**173**	**142**	**120**
Basic diluted net profit per common share (in NIS)	**210**	**235**	**197**	**167**

(1) Income from merchant fees is presented without offsetting fees to other issuers, which are presented separately, as part of operating expenses (see Note 24).

* Amount lower than NIS 0.5 million.

** Reclassified.

Rates of Income and Expenses on a Consolidated Basis

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[3][4]	10,281	57	0.55%	
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total	**10,281**	**57**	**0.55%**	**0.55%**
Liabilities[3]	9,650	(6)	(0.06%)	
Effect of derivatives				
Hedging derivatives	8	*-	-	-
Total	**9,658**	**(6)**	**(0.06%)**	**(0.06%)**
Interest-rate gap			**0.49%**	**0.49%**

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

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

(3) Excluding derivative instruments.

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

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

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

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	197	7	3.55%	
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total	**197**	**7**	**3.55%**	**3.55%**
Liabilities(3)	48	-	-	-
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total	**48**	**-**	**-**	**-**
Interest-rate gap			**3.55%**	**-**

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

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

(3) Excluding derivative instruments.

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

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

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

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	121	6	4.96%	
Effect of derivatives				
Hedging derivatives	8	*-	-	-
Total	**129**	**6**	**4.96%**	**4.65%**
Liabilities(3)(4)	81	4	4.94%	
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total	**81**	**4**	**4.94%**	**4.94%**
Interest-rate gap			**9.90%**	**9.59%**

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

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

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income(3)(4)	10,599	70	0.66%	
Effect of derivatives				
Hedging derivatives	8	*-	-	-
Total	**10,607**	**70**	**0.66%**	**0.66%**
Monetary liabilities generating financing expenses(3)	9,779	(2)	(0.02%)	
Effect of derivatives				
Hedging derivatives	8	*-	-	-
Total	**9,787**	**(2)**		**(0.02%)**
Interest-rate gap			**0.63%**	**0.64%**
Fees from financing business and other financing income		74		
Other financing expenses		(6)		
Profit from financing activity before provision for doubtful debts		68		
Provision for doubtful debts		(29)		
Profit from financing activity after provision for doubtful debts		**39**		

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

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

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

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

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2009
	Average balance[1][2]
	NIS millions
Monetary assets generating financing income[3][4]	10,599
Assets arising from derivative instruments[5]	8
Other monetary assets	72
Group provision for doubtful debts	(10)
Total monetary assets	**10,669**
Monetary liabilities generating financing expenses[3]	9,779
Liabilities arising from derivative instruments[5]	8
Other monetary liabilities	179
Total monetary liabilities	**9,966**
Total surplus of monetary assets over monetary liabilities	703
Non-monetary assets	309
Non-monetary liabilities	7
Total capital means	**1,005**

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

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

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

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

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2009			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity(4)				
Assets(3)	31	2	6.45%	
Effect of derivatives				
Hedging derivatives	2	*-	-	-
Total	**33**	**2**	**5.56%**	**6.06%**
Liabilities(3)	21	1	4.76%	
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total	**21**	**1**	**4.76%**	**4.76%**
Interest-rate gap			**10.32%**	**10.82%**

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

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

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

Addendum 3 (cont.)

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2008			
			Rate of income (expenses)[4]	
	Average balance[(1)(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[(3)]	10,065	63	0.63%	
Effect of derivatives				
Hedging derivatives	-	-		-
Total	**10,065**	**63**		**0.63%**
Liabilities[(3)]	9,540	(9)	(0.09%)	
Effect of derivatives				
Hedging derivatives	12	*-		-
Total	**9,552**	**(9)**		**(0.09%)**
Interest-rate gap			**0.53%**	**0.53%**

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

(4) Calculated on an annual basis.

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

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

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2008			
			Rate of income (expenses)(4)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)	193	9	4.66%	
Effect of derivatives				
Hedging derivatives	-		-	-
Total	**193**	**9**		**4.66%**
Liabilities(3)	50	-	-	
Effect of derivatives				
Hedging derivatives	-	-		-
Total	**50**	**-**		**-**
Interest-rate gap			**4.66%**	**4.66%**

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

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

(3) Excluding derivative instruments.

(4) Calculated on an annual basis.

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

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

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2008			
			Rate of income (expenses)[4]	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[3]	100	64	64.00%	
Effect of derivatives				
Hedging derivatives	-	-		-
Total	**100**	**64**		**64.00%**
Liabilities[3]	84	(53)	(63.10%)	
Effect of derivatives				
Hedging derivatives	(10)	*-		-
Total	**74**	**(53)**		**(71.62%)**
Interest-rate gap			**0.90%**	**(7.62%)**

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

(4) Calculated on an annual basis.

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

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

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2008			
			Rate of income (expenses)(5)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income(3)(4)	10,358	136	1.31%	
Effect of derivatives				
Hedging derivatives	-	-		-
Total	**10,358**	**136**		**1.31%**
Monetary liabilities generating financing expenses(3)	9,674	(62)	(0.64%)	
Effect of derivatives				
Hedging derivatives	2	*-		-
Total	**9,676**	**(62)**		**(0.64%)**
Interest-rate gap			**0.67%**	**0.67%**
Profit from financing activity before provision for doubtful debts		74		
Provision for doubtful debts		(14)		
Profit from financing activity after provision for doubtful debts		**60**		

* Amount lower than NIS 0.5 million.

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

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in the amount of NIS 2 million, was added to the average balance of bonds available for sale.

(5) Calculated on an annual basis.

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

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

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2008
	Average balance[(1)(2)]
	NIS millions
Monetary assets generating financing income[(3)(4)]	10,358
Assets arising from derivative instruments[(5)]	-
Other monetary assets	92
Group provision for doubtful debts	(4)
Total monetary assets	**10,446**
Total	
Monetary liabilities generating financing expenses[(3)]	9,674
Liabilities arising from derivative instruments[(5)]	2
Other monetary liabilities	173
Total monetary liabilities	**9,849**
Total surplus of monetary assets over monetary liabilities	597
Non-monetary assets	264
Non-monetary liabilities	(7)
Total capital means	**854**

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

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

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in the amount of NIS 2 million, was added to the average balance of bonds available for sale.

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

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

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

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2008			
			Rate of income (expenses)(5)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity(4)				
Assets(3)	28	18	64.29%	
Effect of derivatives				
Hedging derivatives	-	-		-
Total	**28**	**18**		**64.29%**
Liabilities(3)	24	(15)	(62.50%)	
Effect of derivatives				
Hedging derivatives	(3)	-		-
Total	**21**	**(15)**		**(71.43%)**
Interest-rate gap			**1.79%**	**(7.14%)**

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

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

(5) Calculated on an annual basis.

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

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

Addendum 4

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	6,393	2,103	2,014	395	12
Derivative financial instruments	10	-	-	-	-
Total fair value	**6,403**	**2,103**	**2,014**	**395**	**12**
Financial liabilities:					
Financial liabilities	5,529	2,318	1,991	376	-
Derivative financial instruments	-	-	10	-	-
Total fair value	**5,529**	**2,318**	**2,001**	**376**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	874	(215)	13	19	12
Cumulative exposure in the segment	874	659	672	691	703
Linked Israeli currency					
Financial assets:					
Finanical assets	33	13	112	3	7
Total fair value	**33**	**13**	**112**	**3**	**7**
Financial liabilities:					
Financial liabilities	25	13	11	2	-
Total fair value	**25**	**13**	**11**	**2**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	8	-	101	1	7
Cumulative exposure in the segment	8	8	109	110	117

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	93	11,010	1.58	0.21
	-	-	10		0.01
	-	**93**	**11,020**		**0.21**
	-	12	10,226	1.34	0.22
	-	-	10		0.73
	-	**12**	**10,236**		**0.22**
	-	81	784		
	703				
	-	-	168	0.47	0.23
	-	**-**	**168**	**0.47**	**0.23**
	-	-	51	1.29	0.17
	-	**-**	**51**	**1.29**	**0.17**
	-	-	117		
	117				

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	67	14	16	2	-
Total fair value	**67**	**14**	**16**	**2**	**-**
Financial liabilities:					
Financial liabilities	33	11	10	2	-
Total fair value	**33**	**11**	**10**	**2**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	34	3	6	-	-
Cumulative exposure in the segment	34	37	43	43	43
Total exposure to changes in interest rates					
Financial assets:					
Finanical assets	6,493	2,130	2,142	400	19
Derivative financial instruments	10	-	-	-	-
Total fair value	**6,503**	**2,130**	**2,142**	**400**	**19**
Financial liabilities:					
Financial liabilities	5,587	2,342	2,012	380	-
Derivative financial instruments	-	-	10	-	-
Total fair value	**5,587**	**2,342**	**2,022**	**380**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	916	(212)	120	20	19
Cumulative exposure in the segment	916	704	824	844	863

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	99	1.29	0.14
	-	**-**	**99**	**1.29**	**0.14**
	-	13	69	1.29	0.19
	-	**13**	**69**	**1.29**	**0.19**
	-	(13)	30		
	43				
	-	93	11,277	1.53	0.21
	-	-	10		0.01
	-	**93**	**11,287**		**0.21**
	-	25	10,346	1.34	0.22
	-	-	10		0.73
	-	**25**	**10,356**		**0.22**
	-	68	931		
	863				

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

Addendum 5

Reported amounts

In NIS millions

				2009
	Q4	Q3	Q2	Q1
Assets				
Cash on hand and deposits with banks	493	326	661	810
Debtors in respect of credit-card activity	10,515	(1)10,298	(1)9,601	(1)9,121
Securities	178	(1)316	(1)343	(1)422
Investments in affiliated companies	2	(1)*-	(1)22	(1)22
Buildings and equipment	254	252	252	245
Other assets	173	153	105	90
Total assets	**11,615**	**11,345**	**10,984**	**10,710**
Liabilities				
Credit from banking corporations	47	52	6	4
Creditors in respect of credit-card activity	10,249	(1)10,003	(1)9,576	(1)9,310
Other liabilities	220	222	395	426
Total liabilities	**10,516**	**10,277**	**9,977**	**9,740**
Minority interests' rights	5	5	-	-
Shareholders' equity	1,094	1,063	1,007	970
Total liabilities and capital	**11,615**	**11,345**	**10,984**	**10,710**

* Amount lower than NIS 0.5 million.

(1) Reclassified.

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

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	931	924	967	1,156
Debtors in respect of credit-card activity*	9,251	10,197	9,006	8,684
Securities	212	211	212	113
Investments in affiliated companies	21	21	21	21
Buildings and equipment	224	222	216	206
Other assets*	90	91	82	95
Total assets	**10,729**	**11,666**	**10,504**	**10,275**
Liabilities				
Credit from banking corporations	6	19	6	14
Creditors in respect of credit-card activity	9,412	10,354	9,266	9,080
Other liabilities	387	407	389	396
Total liabilities	**9,805**	**10,780**	**9,661**	**9,490**
Shareholders' equity	924	886	843	785
Total liabilities and capital	**10,729**	**11,666**	**10,504**	**10,275**

* Reclassified.

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

Addendum 6

Reported amounts

In NIS millions

	2009			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions**	300	309	287	272
Profit from financing activity before provision for doubtful debts	20	17	15	16
Others	7	7	10	6
Total income	**327**	**333**	**312**	**294**
Expenses				
Provision for doubtful debts	8	*6	*9	*6
Operating expenses(1)	125	*114	*111	*102
Sales and marketing expenses	45	30	31	26
General and administrative expenses	*18	*18	*18	15
Payments to banks	91	99	89	95
Total expenses	**287**	**267**	**258**	**244**
Operating profit before taxes	**40**	**66**	**54**	**50**
Provision for taxes on operating profit	13	17	16	11
Operating profit after taxes	**27**	**49**	**38**	**39**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	***-	***-	***-	***-
Minority interests' share in net operating losses after taxes of consolidated companies	1	***-	-	-
Net profit	**28**	**49**	**38**	**39**
Basic diluted net profit per common share (in NIS)	**41**	**67**	**52**	**50**
(1) Of which, fees to other issuers	18	17	15	13

* Reclassified.

** Income from merchant fees is presented without offsetting fees to other issuers, which are presented separately, as part of operating expenses.

*** Amount lower than NIS 0.5 million.

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

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions***	280	312	283	271
Profit from financing activity before provision for doubtful debts	19	25	15	15
Others	6	5	31	6
Total income	**305**	**342**	**329**	**292**
Expenses				
Provision for doubtful debts**	6	4	2	2
Operating expenses**	110	103	97	95
Sales and marketing expenses	35	43	37	30
General and administrative expenses	17	12	11	11
Payments to banks	91	118	103	104
Total expenses	**259**	**280**	**250**	**242**
Operating profit before taxes	**46**	**62**	**79**	**50**
Provision for taxes on operating profit	12	17	21	14
Operating profit after taxes	**34**	**45**	**58**	**36**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	*-
Net profit	**34**	**45**	**58**	**36**
Basic diluted net profit per common share (in NIS)	**45**	**61**	**79**	**50**
(1) Of which, fees to other issuers	14	14	14	12

* Amount lower than NIS 0.5 million.

** Reclassified.

*** Income from merchant fees is presented without offsetting fees to other issuers, which are presented separately, as part of operating expenses.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2009 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

Dov Kotler

Tel Aviv, February 25, 2010

Chief Executive Officer

Certification

I, Sigal Bermac, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2009 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

Sigal Bermac

Tel Aviv, February 25, 2010

Manager of Finance and Accounting Department,
Chief Accountant

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

The Board of Directors and the Management of Isracard Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company with regard to the adequate preparation and presentation of the financial statements, which are published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if 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, 2009, 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, 2009, 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, 2009 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 153. 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, 2009.

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

Tel Aviv, February 25, 2010

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2009

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Somekh Chaikin

Auditors' Report to the Shareholders of Isracard Ltd. – Internal Control of Financial Reporting

We have audited the internal control over financial reporting of Isracard Ltd. (hereinafter – “the Company”) as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States), as adopted by the Supervisor of Banks. 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 respects. 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 of a company over financial reporting 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 directives and guidelines of the Supervisor of Banks. The internal control of a company over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets 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 respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with accepted auditing standards in Israel, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards applied in the audit of credit-card companies as determined by guidelines of the Supervisor of Banks, the consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows – of the Company and consolidated – for each of the years in the three-year period ended on December 31, 2009, and our report dated February 25, 2010 expressed an unqualified opinion on the said consolidated financial statements.

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

Tel Aviv, February 25, 2010

Somekh Chaikin

Auditors' Report to the Shareholders of Isracard Ltd.

We have audited the consolidated balance sheets of Isracard Ltd. (hereinafter: "the Company") as of December 31, 2009 and 2008 and the statements of profit and loss, reports on changes in shareholders' equity, and statements of cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2009. 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 the application of which in auditing credit-card companies was determined in the directives and guidelines of the Supervisor of Banks. Such standards require that we plan and perform the audit to obtain reasonable assurance that 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, as well as evaluating the fairness of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Company and consolidated, as of December 31, 2009 and 2008 and the results of operations, changes in shareholders' equity, and cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2009, in conformity with Generally Accepted Accounting Principles in Israel. Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 18C to the financial statements regarding Antitrust Issues and Recommendations for Additional Regulation, and to Note 18E(3) regarding Legal Proceedings.

We have also audited, in accordance with standards prescribed by the Public Company Accounting Oversight Board (United States) (PCAOB), as adopted by the Supervisor of Banks, the internal control of the Company over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2010, expressed an unqualified opinion.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Tel-Aviv, February 25, 2010

Balance Sheets

Reported amounts

In NIS millions

	Note	December 31 2009	December 31 2008
Assets			
Cash on hand and deposits with banks	3	493	931
Debtors in respect of credit-card activity	4, 5, 6	10,515	*9,251
Securities	7	178	212
Investments in affiliated companies	8	2	21
Buildings and equipment	9	254	224
Other assets	10	173	*90
Total assets		**11,615**	**10,729**
Liabilities			
Credit from banking corporations	11	47	6
Creditors in respect of credit-card activity	12	10,249	9,412
Other liabilities	13	220	387
Total liabilities		**10,516**	**9,805**
Contingent liabilities and special agreements	18		
Minority interests		5	-
Shareholders' equity	14	1,094	924
Total liabilities and capital		**11,615**	**10,729**

* Reclassified.

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

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

Tel Aviv, February 25, 2010

Consolidated Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2009	2008	2007
Income				
From credit-card transactions(1)	21	1,168	1,146	1,076
Profit from financing activity before provision for doubtful debts	22	68	74	57
Others	23	30	48	18
Total income		**1,266**	**1,268**	**1,151**
Expenses				
Provision for doubtful debts	5	29	**14	**7
Operating expenses(1)	24	452	**405	**355
Sales and marketing expenses	25	132	145	142
General and administrative expenses	26	69	51	44
Payments to banks	18G	374	416	408
Total expenses		**1,056**	**1,031**	**956**
Operating profit before taxes		**210**	**237**	**195**
Provision for taxes on operating profit	27	57	64	53
Operating profit after taxes		**153**	**173**	**142**
The Company's share in operating profits (losses) of affiliated companies, after tax effects		*-	*-	*-
Minority interests' share in net operating losses after taxes of a consolidated company		1	-	-
Net profit		**154**	**173**	**142**
Basic diluted net profit per common share (in NIS)		**210**	**235**	**197**
Number of common shares used in calculation		733,198	733,198	721,736

(1) Income from merchant fees is stated without offsetting fees to other issuers, which are stated separately as part of operating expenses (see Note 24).
See also Note 2 – Accounting Policies.

* Amount lower than NIS 0.5 million.

** Reclassified.

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	For the year ended December 31, 2007							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2007	***-**	**-**	**1**	**1**	***-**	**-**	**703**	**704**
Net profit	-	-	-	-	-	-	142	142
Benefit for share-based payment transactions	-	-	1	1	-	-	-	1
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	*-	-	-	*-
Effect of related tax	-	-	-	-	*-	-	-	*-
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation	*-	1	-	1	-	-	-	1
Balance as of Dec. 31, 2007	***-**	**1**	**2**	**3**	***-**	***-**	**845**	**848**

* Amount lower than NIS 0.5 million.

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

Report on Changes in Shareholders' Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2008							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2008	***-**	**1**	**2**	**3**	***-**	***-**	**845**	**848**
Net profit	-	-	-	-	-	-	173	173
Dividend paid	-	-	-	-	-	-	(100)	(100)
Benefit for share-based payment transactions	-	-	1	1	-	-	-	1
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(3)	-	-	(3)
Effect of related tax	-	-	-	-	1	-	-	1
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation	-	4	-	4	-	-	-	4
Balance as of Dec. 31, 2008	***-**	**5**	**3**	**8**	**(2)**	***-**	**918**	**924**

* Amount lower than NIS 0.5 million.

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

Report on Changes in Shareholders' Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2009							
		Capital reserves			Cumulative other comprehensive profit (loss)			
	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2009	***-**	**5**	**3**	**8**	**(2)**	***-**	**918**	**924**
Net profit	-	-	-	-	-	-	154	154
Benefit from controlling shareholder, net	-	-	*-	*-	-	-	-	*-
Benefit for share-based payment transactions	-	-	10	10	-	-	-	10
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	1	-	-	1
Adjustments in respect of presentation of securities available for sale reclassified to the profit and loss report	-	-	-	-	2	-	-	2
Effect of related tax	-	-	-	-	(1)	-	-	(1)
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation	-	4	-	4	-	-	-	4
Balance as of Dec. 31, 2009	***-**	**9**	**13**	**22**	**-**	***-**	**1,072**	**1,094**

* Amount lower than NIS 0.5 million.

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

Consolidated Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	2008	2007
Cash flows from operating activity			
Net profit for the year	**154**	**173**	**142**
Adjustments required to present operating cash flows:			
Minority interests' share in net losses of a consolidated company	(1)	-	-
The Company's share in undistributed profits of affiliated companies	*-	*-	*-
Depreciation of buildings and equipment	55	42	26
Provision for doubtful debts	22	11	6
Profit from realization and adjustment of securities available for sale	(11)	(31)	-
Loss from realization of buildings and equipment	*-	*-	*-
Deferred taxes, net	(5)	(7)	(4)
Retirement compensation – increase (decrease) in surplus of provision over amount funded	(10)	19	7
Revaluation of deposits with banking corporations	*-	(4)	(8)
Benefit due to share-based payment transactions	10	***1	***1
Benefit due to share allocation	4	***4	***1
(Increase) in other assets	(50)	***(15)	(23)
(Decrease) increase in other liabilities**	21	(43)	7
Net cash from operating activity	**189**	**150**	**155**
Cash flows for activity in assets			
Deposits with banks**	(18)	(22)	(155)
Withdrawal of deposits from banks**	21	170	265
Increase in credit to cardholders and merchants, net**	(367)	(339)	(155)
Increase in debtors in respect of credit-card activity, net**	(919)	***(196)	(698)
Purchase of securities available for sale	(285)	(147)	(101)
Acquisition of buildings and equipment	(85)	(71)	(63)
Proceeds of realization of securities available for sale	333	77	-
Proceeds of realization of buildings and equipment	*-	*-	1
Proceeds of realization of investments in affiliated companies	15		
Acquisition of consolidated companies consolidated for the first time (Appendix A)	(182)	-	-
Purchase of shares of affiliated company	(2)	-	(8)
Net cash used for activity in assets	**(1,489)**	**(528)**	**(914)**

* Amount lower than NIS 0.5 million.

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

*** Reclassified.

Consolidated Statement of Cash Flows (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
Cash flows from activity in liabilities and capital			
Short-term credit from banking corporations, net	28	(7)	9
Increase in creditors in respect of credit-card activity, net**	837	251	667
Settlement of a liability for a forward contract	(1)	-	-
Dividend paid to the Company's shareholders	-	(100)	-
Net cash from activity in liabilities and capital	**864**	**144**	**676**
Decrease in cash and cash equivalents	**(436)**	**(234)**	**(83)**
Balance of cash and cash equivalents at beginning of year	**911**	**1,145**	**1,228**
Balance of cash and cash equivalents at end of year	**475**	**911**	**1,145**

* Amount lower than NIS 0.5 million.

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

*** Reclassified.

	For the year ended December 31		
	2009	**2008**	**2007**
Appendix A			
Acquisition of subsidiaries consolidated for the first time			
Assets and liabilities of the consolidated subsidiaries at the acquisition date:			
Assets, excluding cash in the amount of NIS 10 million	(11)	-	-
Liabilities of the Company at initial consolidation			
Liabilities	(166)	-	-
Minority interests	5	-	-
Goodwill	(10)	-	-
Cash flow for acquisition of subsidiaries consolidated for the first time	**182**	-	-

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

Note 1 – General

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

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

B. The financial statements were prepared in accordance with Israeli GAAP and with the directives and guidelines of the Supervisor of Banks with regard to financial reporting by credit-card companies. The Notes refer to the consolidated financial statements of the Company and its consolidated companies. Note 30 presents the condensed financial statements of the Company, including the balance sheet and the statement of profit and loss.

Note 2 – Reporting Rules and Significant Accounting Policies

A. Definitions

In these financial statements:

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
5. Affiliated company – A company, other than a consolidated company, the Company's investment in which is included in the Company's statements based on the equity method.
6. Investee company – A consolidated company or an affiliated company.
7. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
8. Interested parties – As defined in Paragraph 1 of the definition of an "interested party" of a corporation in Section 1 of the Securities Law, 5728-1968.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

9. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 5756-1996.

10. CPI – The consumer price index published by the Central Bureau of Statistics.

11. USD – United States dollar.

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

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

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

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

16. Operating 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.

B. Financial Statements in Reported Amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, “Discontinuance of Adjustment of Financial Statements for Inflation.” In accordance with this standard, and in accordance with Accounting Standard No. 17 of December 2002, the adjustment of financial statements for inflation ceased as of January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements, in accordance with Opinion Statement 36 of the Institute of Certified Public Accountants in Israel. The Company applied the directives of the standard, and accordingly ceased adjusting its financial statements as of January 1, 2004, as noted above, subject to transitional directives established for this purpose by the Supervisor of Banks. Note 29 includes information regarding the Company’s data in historical nominal values.

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

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

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

C. Operating Currency and Presentation Currency

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

D. Reporting Principles

1. Balance sheets

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

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

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

2. Statements of profit and loss

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

    (B) Income and expenses arising from non-monetary items or from provisions included in the balance sheet are derived from the difference between the reported amount at the opening balance and the reported amount at the closing balance.

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

3. Reports on changes in shareholders' equity

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

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

E. Linkage and Foreign Currency

Transactions in foreign currency are translated into the operating 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 operating 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 operating 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 operating currency at the exchange rate in effect on the date on which the fair value was determined.

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

The following table shows data regarding the consumer price index (2006 base = 100) and exchange rates and their rates of change during the accounting period:

	December 31		
	2009	2008	2007
Consumer price index (in points)	110.6	106.4	102.5
United States dollar exchange rate (in NIS per 1 USD)	3.775	3.802	3.846

	Percent change in the year ended December 31		
	2009	2008	2007
Consumer price index	3.9	3.8	3.4
USD exchange rate	(0.7)	(1.1)	(9.0)

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.

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

F. Use of Estimates

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

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

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

G. Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks include, among other things, cash and deposits with banks with an original term of deposit of no more than three months.

H. Basis for Consolidation

1. Subsidiaries

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

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

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

H. Basis for Consolidation (cont.)

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

2. Affiliates

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

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

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

3. Transactions cancelled in consolidation

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

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

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, other than shares for which no fair value is available, which are presented at cost. Accrued interest, linkage and exchange-rate differences, premium reduction or discounting (according to the effective interest method), and losses from other-than-temporary impairment are allocated to the statement of profit and loss. Unrealized profits or losses from adjustment to fair value net of tax are recorded directly in a separate item within shareholders' equity, and are transferred to the statement of profit and loss upon realization or redemption.

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

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 another issuing company, against a liability to pay the merchant. If the merchant does not receive acquiring services from the Company, the Company records a liability to pay another acquiring company.

K. Offsetting Financial Instruments

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

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

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

The Company applies the measurement and disclosure rules set forth in the American accounting standard FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," for differentiation between transfers of financial assets to be recorded as sales and other transfers. Accordingly, the principle was adopted under which a financial asset transferred shall be presented in the balance sheet of the party controlling the asset, whether it is transferring or receiving the asset. For this purpose, tests of control were established that refer to transactions for the transfer of financial assets (e.g. repurchase transactions, securities lending, securitization of loans, and sale of and participation in loans).

The amendments to the Public Reporting Directives apply to the Company with regard to securities lending transactions, repurchase of securities, securitization of financial assets, other transfers of financial assets, provision of services for financial assets, and extinguishment of liabilities executed after December 31, 2006 which are administered in accordance with management rules, including the management of margin deposits, established on this subject in the United States, as published in the draft Proper Conduct of Banking Business Directive of the Supervisor of Banks. Transactions that do not comply with the said management rules were treated in accordance with the Public Reporting Directives from before the adoption of the rules of FAS 140.

Securities sold under repurchase agreements or purchased under resale agreements, securities borrowed or lent, and other financial instruments transferred or received by the Company in which the Company has not lost control of the asset transferred or has not acquired control of the asset received, are treated as secured debt.

The Company subtracts a liability only if the liability has been extinguished; i.e., if one of the following conditions has been met: (A) The Company has paid the lender and has been released from its obligation in respect of the liability; or (B) the Company has been legally released in a legal proceeding, or with the consent of the lender, from being the principal debtor in respect of the liability.

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.

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

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

The financial statements include a provision for gift campaigns (Stars) for cardholders. In determining the fairness of the provision, Management relies on past experience in order to estimate the future rate of utilization of Stars accumulated by cardholders, and the forecast cost per Star, as updated from time to time.

O. Buildings and Equipment

1. Buildings and equipment are recognized for the first time at cost, including costs directly attributable to the acquisition of the buildings and equipment.

2. In periods subsequent to the initial recognition, these items are stated at cost, less accrued depreciation, and less accrued losses for decline in value.

3. Depreciation and depreciation method:

   (A) The Company separately depreciates each part of buildings and equipment 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 buildings and equipment systematically over their useful life. The depreciation method used reflects the forecast pattern for the consumption of future economic benefits of the asset.

   (C) The Company reviews the residual value, the useful life of the item of buildings and equipment, and the depreciation method used, at least at the end of each fiscal year. Changes are treated as changes in accounting estimates, in accordance with generally accepted accounting principles.

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

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

O. Buildings and Equipment (cont.)

5. Annual depreciation rates:

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

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

P. Intangible Assets

Goodwill

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

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

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

Q. Impairment of Non-Financial Assets

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

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

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

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

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

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

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

R. Taxes on Income

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

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

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

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

S. Share-Based Payments

1. Several employees of the Company have been granted options exercisable into shares of the Company and of the Parent Company, as well as rights to receive cash payments based on increases in the share price of the Parent Company on the stock market (phantom options).

2. Share-based payment transactions include transactions with employees or other parties settled in capital instruments, in cash, or in other assets. Share-based payment transactions in which goods or services are received in consideration for the payment are recorded at fair value.

   With regard to transactions settled in capital instruments, the standard applies to allocations performed after March 15, 2005, but not yet vested by January 1, 2006. The Standard similarly applies to changes in the terms of transactions settled in capital instruments and executed after March 15, 2005, even if the allocations in respect of which the changes were executed occurred prior to that date. The Standard also applies to liabilities arising from share-based payment transactions existing on January 1, 2006.

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

S. Share-Based Payments (cont.)

The Company records the benefit created by the allocation of option notes to employees as a wage expense, against a capital reserve, according to the fair value of the options at the allocation date, using the Black & Scholes model. In accordance with this policy, the benefit generated is spread over the vesting period of the option notes, based on the Company's estimates regarding the number of options expected to vest, other than forfeitures resulting from noncompliance with market conditions.

Liabilities to employees in respect of rights to increases in the value of shares in cash (phantom options) are measured for the first time at the date of allocation and subsequently at each reporting date until the liability is extinguished, at the fair value of the rights to the increase in the value of shares, using the Black & Scholes model. Changes in the fair value of these liabilities are recognized in the statement of profit and loss for the period, over the vesting period of the rights to the increase in the value of shares.

T. Employee Rights

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

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

U. Contingent Liabilities

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

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

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

3. Remote risk – the probability of materialization of the exposure to risk is under 20%. No provision was included in the financial statements in respect of claims in this risk group, and no disclosure is given (with the exception of class-action suits).

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

U. Contingent Liabilities (cont.)

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.

V. Derivative Financial Instruments

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

Recognition of income from derivatives:

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

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

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

W. 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 gross basis, while fees to other issuers are presented under expense items.

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

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

5. Securities – see Section I above.

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

X. 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.

Y. Segmental Reporting

Segmental reporting is presented in accordance with the directives of the Supervisor of Banks – see also Note 28.

Z. Statement of Cash Flows

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

The "cash and cash equivalents" item includes cash and deposits with banks for an original period of up to three months.

AA. Transactions with Controlling Parties

Asset Transfers

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

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

BB. Initial Implementation of Accounting Standards

In January 2009, the Israel Accounting Standards Board published Accounting Standard No. 15 (Amended), "Impairment of Assets," Clarification No. 10, "Accounting Treatment of Impairment of an Investment in an Investee Company that is Not a Subsidiary," and a reformulation of Clarifications No. 1 and No. 6 on "Accounting Treatment of Impairment of an Investment in an Investee Company that is Not a Subsidiary" and on "Treatment of Impairment of Assets of an Investee Company that is Not a Subsidiary," respectively.

Standard 15 (Amended) primarily changes the accounting treatment of the manner of consolidated allocation of goodwill to cash-generating units. Clarification No. 10 stipulates how a loss from impairment of an investee company that is not a subsidiary should be allocated, including the treatment of a cancellation of a loss from impairment recognized in previous periods.

Pursuant to the Standard, in order to examine impairment, goodwill acquired in the course of a business combination shall be allocated as of the date of the acquisition to each of the cash-generating units or groups of cash-generating units of the acquiree, and to each of the cash-generating units or groups of cash-generating units of the acquirer, which are expected to benefit from the synergies of the joining, regardless of whether other assets or other liabilities of the acquired entity are assigned to those units or groups of units. The basis for allocation shall be according to the relative fair value of the units at the acquisition date. Thus, the impairment of goodwill is to be examined on a level reflecting the manner in which the entity administers its operations and to which the goodwill is attributed. The Standard further stipulates that each unit or group of units to which goodwill has been allocated shall represent the lowest level at which goodwill is monitored for internal administration purposes, and shall not be larger than a segment, as established under Accounting Standard No. 11, "Segmental Reporting." The Standard thereby cancelled the accounting treatment in the previous standard concerning the implementation of a two-stage test to examine the recognition of impairment ("top-down" and "bottom-up" tests).

Clarification No. 10 states that an entity must determine at each balance-sheet date whether signs exist to indicate impairment of an investment in an equity-based investee. If such a sign exists, the entity must estimate the recoverable amount of the investment, in accordance with the directives of the Standard. If a loss from impairment is recognized, according to the Standard, this loss shall be allocated to the investment as a whole. The cancellation of a loss from impairment of the investment shall also be performed by examining the investment as a whole. Clarification No. 10 thereby cancels the rules set forth in Standard 15 prior to its amendment, whereby the allocation of a loss from impairment of an investment in an affiliate was first allocated to goodwill in the investment account, and the balance of the loss was recorded against the investment as a whole.

The reformulation of Clarification No. 1 has been adapted to the accounting treatment of impairment of investee companies, as stipulated in Standard 15 (Amended) and in Clarification No. 10.

The directives of the 'Standard and the Clarifications are to be implemented from this point forward. The implementation of the Standard had no material impact on the results of operations of the Company.

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

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

1. In July 2006, the Israel Accounting Standards Board published **Accounting Standard No. 29**, "Adoption of International Financial Reporting Standards (IFRS)." The Standard stipulates that entities subject to the Securities Law, 5728-1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting January 1, 2008. The aforesaid does not yet apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. With regard to the manner of implementation of the Standard by banking corporations, the Supervisor of Banks has stated, among other matters, that in the second half of 2009 he will announce his decision regarding the implementation date of IFRS pertaining to the core business of banking. In June 2009, the Supervisor of Banks issued a circular 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 according to IFRS by banking corporations and credit-card companies 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. During 2011, the Supervisor of Banks intends to reach a final decision on this matter. The final decision will be made taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.

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

   Thus, until the target dates for the adoption of IFRS, as noted above, the financial statements of banking corporations and credit-card companies will continue to be prepared in accordance with the directives and guidelines of the Supervisor of Banks. For information regarding the adoption of certain IFRS, see Note 2 CC(5)(C).

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

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

2. In December 2006, the Israel Accounting Standards Board issued **Accounting Standard No. 23**, "Accounting Treatment of Transactions between an Entity and its Controlling Party." The standard replaces the Securities Regulations (Statement of Transactions between a Corporation and its Controlling Party in Financial Statements), 5756-1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The standard stipulates that assets and liabilities with regard to which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction, at fair value, and the difference between the fair value and the consideration allocated in the transaction shall be allocated to shareholders' equity. A negative difference constitutes a dividend and therefore reduces the balance of retained earnings. A positive difference constitutes an owner investment, and shall therefore be presented in a separate item under shareholders' equity, entitled "capital reserve from a transaction between the entity and its controlling party."

   The standard addresses three issues related to transactions between an entity and its controlling party, as follows: (1) transfer of an asset to the entity from the controlling party, or alternatively, transfer of an asset from the entity to the controlling party; (2) 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 (3) 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;

   In the absence of a specific reference in the International Financial Reporting Standards, 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 International Financial Reporting Standards;

   In the absence of a reference in US GAAP, the sections of Standard 23 will apply, provided that they do not contradict International Financial Reporting Standards 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 – Reporting Rules and Significant Accounting Policies (cont.)

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

3. In May 2009, the FASB issued the US accounting standard **FAS 166**, "Accounting for Transfers of Financial Assets" (an amendment of FAS 140). 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 terms for subtraction of financial assets, amends measurement rules for the first-time recognition of retained interests, and cancels reclassification rules in guaranteed mortgage securitization.

   The FASB concurrently issued the US accounting standard FAS 167, "Amendments to FASB Interpretation No. 46(R)," which amends the rules set forth in FIN 46(R), "Consolidation of Variable Interest Entities." FAS 167 mandates an examination of the consolidation requirement with regard to all entities previously defined as QSPEs, updates the criteria for the identification of Variable Interest Entities (VIEs), changes the method of establishing the identity of the primary beneficiary (from an approach based on quantitative examinations to a qualitative examination 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, banking corporations and credit-card companies (hereinafter: "**Banking Corporations**") are required to implement 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:

   The recognition and measurement requirements in the standard are to be implemented with regard to transfers of financial assets performed as of January 1, 2010.

   The examination, from January 1, 2010 forward, of entities defined as QSPEs under the former rules, to determine whether consolidation is required pursuant to FAS 167.

   In addition, the Company is permitted not to disclose comparison figures for 2009 with regard to disclosure requirements added for the first time due to the circular of the Supervisor of Banks.

   The expected effect of the first-time implementation of FAS 166 and FAS 167 is not material.

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

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

4. A circular of the Supervisor of Banks on the subject of "**Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses**" (the "**Circular**" or the "**Directive**") was issued on December 31, 2007. The Circular is based, among other things, on US accounting standards and the related 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 departure from the current directives on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts.

   According to the Circular, the Company is required to make provisions for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. In addition to the aforesaid, according to the Circular, provisions must be made 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 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." "Individual provisions for credit losses" are to be applied for all debts where the contractual balance (without deducting accounting write-offs that do not involve accounting waivers, unrecognized interest, provisions for credit losses, and collateral) is NIS 1 million or more, and for other debts identified by the company for individual assessment and for which the provision for decline in value is not included in the "specific provision for credit losses estimated on a group basis." The individual provision for credit losses is to be assessed based on the expected future cash flows, discounted at the effective interest rate of the debt; or, for debts contingent upon collateral, or when the company determines that seizure of an asset is expected, according to the fair value of the collateral placed under lien to secure the credit. "Specific provisions for credit losses estimated on a group basis" are to be applied in provisions for the decline in value of large homogenous groups of small debts, and in respect of debts examined individually and found to be unimpaired. The specific provision for credit losses in respect of debts evaluated on a group basis is to be calculated in accordance with the rules stipulated in US accounting standard FAS 5, "Accounting for Contingencies," based on a current estimate of the rate of past losses in respect of each homogenous group of debts with similar risk characteristics. The required provision in respect of off-balance-sheet credit instruments is to be assessed in accordance with the rules stipulated in FAS 5.

   The Directive further establishes various definitions and classifications of balance-sheet and off-balance-sheet credit risk, rules for the recognition of interest income from impaired debts, and rules for accounting write-offs of problematic debts. Among other things, the Circular states that accounting write-offs should be performed for any individually examined debt thought to be uncollectible, of such low value that its retention as an asset is unjustified, or debts in respect of which the company has carried out prolonged collection efforts.

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

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

The Directive is to be implemented in the financial statements of banking corporations and credit-card companies from the statements as of January 1, 2011 (hereinafter: the "**First Implementation Date**") forward. The Directive is not to be implemented retroactively in financial statements for previous periods. Alternatively, at the First Implementation Date, banking corporations and credit-card companies will be required, among other things, to:

- 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;
- Cancel all accrued unpaid interest income in respect of all debts meeting the relevant conditions on that date; and
- Examine the need to adjust the balance of current and deferred taxes receivable and payable.

Adjustments of the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments as of January 1, 2010 to the requirements of the Directive, including the requirements to establish provisions and the documentation requirements, are to be included directly in the "retained earnings" item within shareholders' equity.

In this connection, it has been clarified that despite the definition according to which restructured problematic debt is impaired debt, banking corporations and credit-card companies are not required to classify as impaired debts restructured prior to January 1, 2007, provided that the debt is not impaired based on the conditions stipulated in the restructuring agreement.

The implementation of the Directive is expected to have implications for the future relationship between the Company and its clients, arising from the requirement to implement principles suitable for the business environment in the United States in the existing business environment in Israel. The stricter documentation requirements and the requirement for assessment and execution of provisions for estimated credit losses in respect of classified debts and off-balance-sheet credit exposures are expected to have an adverse effect on the reported results and financial position of the Company.

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

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

In addition, the implementation of the Directive requires material preparations and changes to existing information systems, which are currently not adapted to reporting according to the proposed principles. In addition, the effect on the balance of credit in the group track cannot be estimated without building an information system to establish parameters for the creation of the homogenous groups with similar risk characteristics. For the reasons noted above, the Management of the Company cannot estimate, at this stage, the effects of the initial implementation of the Directive on its future financial results.

Further to the original Directive of December 31, 2007, on February 21, 2010 the Supervisor of Banks issued a circular (hereinafter: the "**Circular**") which mainly contains updates and clarifications of the guidelines provided in the original Directive, as well as updates of certain guidelines included in the Proper Conduct of Banking Business Directives, with the aim of adapting the existing rules and terminology to the new terminology and guidelines in the original Directive.

The Circular amends the transitional directives for 2010-2011. Under these amendments:

- It is clarified that the inception date of the new directives is January 1, 2011.
- In order to simplify the rules for the measurement of provisions for credit losses on a group basis, which requires the use of complex statistical models and historical data concerning accounting write-offs that do not exist in the banking system, a final version of the temporary order concerning "Group Provisions for Credit Losses in 2011-2012" is included; the temporary order will expire on January 1, 2013.
- A requirement is included for banking corporations and credit-card companies to include a pro-forma note in Note 2 of their financial statements as of December 31, 2010 referring to the effect that the new directives would have on the principal balance-sheet items in the consolidated reports as of December 31, 2010, if these directives were implemented on that date.
- A requirement is included for banking corporations and credit-card companies to include a discussion, in their board of directors' reports for the period ended December 31, 2010, of the effect that the new directives would have on the principal balance-sheet items in the consolidated reports as of December 31, 2010, and on the quality of credit, if these directives were implemented on that date.
- In addition, the disclosure to be given in the reports as of March 31, 2011 of the effect of the initial adoption of the new directives was clarified, including a format for the statement of changes in shareholders' equity and the change in the balance of the provision for credit losses as of March 31, 2011.

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

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

Implementation of the requirements of the Directive necessitates the upgrade and/or setup of a computerized infrastructure system in order to ensure a process of assessment and execution of provisions for credit losses, including internal control systems to examine the adequate implementation of the Directive and validate the effectiveness of the method of calculating the provision. The Company is performing the following steps towards implementation of the Directive:

- Development of the required changes to information systems.
- Acceptance testing of system developments.
- Production of data for 2010 for presentation in the financial statements.

The steps noted above are scheduled for completion by the end of the first quarter of 2010.

The implementation of the aforesaid Directive may have an impact on the Company's reported results; however, at this stage it is not possible to estimate the strength and extent of such impact.

5. Fair value measurements, the fair value option, and the adoption of certain IFRS

On December 31, 2009, the Supervisor of Banks issued a circular regarding, "Fair Value Measurements, the Fair Value Option, and the Adoption of Certain IFRS" (hereinafter: the "Circular"). The Circular adopts:

(A) US Financial Accounting Standard 157, "Fair Value Measurements" (hereinafter: "FAS 157");

(B) US Financial Accounting Standard 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (hereinafter: "FAS 159");

(C) Certain IFRS.

(A) FAS 157 – Fair Value Measurements

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

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

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

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

At the first implementation date, the difference between the balance-sheet balances of the aforesaid 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. The new disclosure requirements, including the disclosure required in annual reports only, will be implemented in the first quarter of 2011, with no obligation to implement the aforesaid disclosure requirements for financial statements for periods presented before the initial implementation of FAS 157.

In order to determine the amount of the adjustment to be recorded as a cumulative effect in the opening balance of retained earnings as of January 1, 2011, and to ensure the adaptation of the assessment methods of the banking corporation to the exit price principle and the guidelines established in FAS 157, the Company shall be required to reexamine its assessment methods for the measurement of fair value, taking into consideration the relevant circumstances for the various transactions, including prices of recent transactions in the market, indicative prices of assessment services, and the results of back-testing of similar types of transactions.

In light of the foregoing, the Company is examining the effects of the adoption of the standard on the financial statements; at this stage, the Company cannot estimate the expected effect of the initial implementation of FAS 157.

(B) FAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities

The purpose of FAS 159 is to allow reduced fluctuations in reported profits arising from the measurement of hedged assets and hedged liabilities and hedging derivative instruments using different measurement bases.

FAS 159 allows the Company 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 establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different measurement bases for similar types of assets and liabilities.

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

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

Despite the aforesaid, the Circular clarifies that the fair value option shall not be chosen unless the 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, the fair value option shall not be chosen with regard to any asset classified in level 2 or level 3 of the fair value hierarchy, or with regard to any liability, unless advance approval to do so is received from the Supervisor of Banks.

FAS 159 will apply from January 1, 2011 forward. Implementation through retroactive adoption or implementation through early adoption are 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: The 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.

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

The Company is examining the implications of the adoption of the standard on the financial statements; at this stage, the Company cannot estimate the expected effect of the initial implementation of FAS 159.

(C) Adoption of Certain IFRS

In accordance with the Circular, certain IFRS were adopted which address matters not related to the core business of banking. Specifically, the Circular adopts IFRS in the areas listed below:

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

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

(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 3R, 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.

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 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 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 shall act in accordance with the IFRS;

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

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

- Where an IFRS contains a reference to another IFRS not adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the Reporting Directives and with Israeli GAAP;

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

Banking corporations 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 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.

The Company is examining the implications of the adoption of the IFRS on its financial statements; at this stage, it cannot estimate the expected effect of the first-time implementation thereof.

Note 3 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2009	**2008**
Cash on hand	63	30
Deposits with banks for an original term of up to 3 months	412	881
Total cash and cash equivalents	**475**	**911**
Other deposits with banks	18	20
Total	**493**	**931**

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

	2009		December 31	
	Average annual interest rate		2009	2008
	For daily balance	For transactions in the last month		
	%	%	In NIS millions	
Debtors in respect of credit cards (1) (3)	-	-	9,362	8,440
Credit to cardholders (2) (3)	8.7	7.58	630	353
Credit to merchants (4)	4.25	4.37	451	361
Total			**10,443**	**9,154**
Less: Provision for doubtful debts			(60)	(38)
Total debtors and credit to credit-card holders and merchants			**10,383**	**9,116**
Companies and international credit-card organization			116	119
Income receivable			16	16
Others			-	*-
Total debtors in respect of credit-card activity			**10,515**	**9,251**
(1) Of which, under the responsibility of banks			8,510	8,086
(2) Of which, under the responsibility of banks			55	45

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

(4) Includes advance payments to merchants in the amount of NIS 332 million (Dec. 31, 2008: NIS 202 million).

* Amount lower than NIS 0.5 million.

Note 5 – Provision for Doubtful Debts(1)

Reported amounts

In NIS millions

A. Consolidated

	Specific provision**	Provision on group basis	Total
Balance of provision as of January 1, 2007	**20**	**1**	**21**
Net provisions for 2007	5	1	6
Balance of provision as of December 31, 2007	**25**	**2**	**27**
Net provisions for 2008	6	5	11
Balance of provision as of December 31, 2008	**31**	**7**	**38**
Net provisions for 2009	14	8	22
Balance of provision as of December 31, 2009	**45**	**15**	**60**

B. The Company

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

* 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 7 million (2008: NIS 3 million, 2007: NIS 1 million) were included in the statement of profit and loss.

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

	December 31, 2009			
	Debtors in respect of credit-card activity			
	Number of borrowers(2)	Total(1)	Of which: under responsibility of banks	Credit risk(3)
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	998,335	1,995	1,708	1,128
Borrower balances over 5 and up to 10	357,777	2,685	2,338	1,519
Borrower balances over 10 and up to 15	139,697	1,788	1,541	1,011
Borrower balances over 15 and up to 20	59,500	1,078	911	610
Borrower balances over 20 and up to 30	43,503	1,101	896	623
Borrower balances over 30 and up to 40	14,093	507	395	287
Borrower balances over 40 and up to 80	10,772	587	453	332
Borrower balances over 80 and up to 150	1,395	149	123	84
Borrower balances over 150 and up to 300	293	61	51	34
Borrower balances over 300 and up to 600	101	45	35	26
Borrower balances over 600 and up to 1,200	48	44	30	25
Borrower balances over 1,200 and up to 2,000	29	64	29	36
Borrower balances over 2,000 and up to 4,000	-	-	-	-
Borrower balances over 4,000 and up to 8,000	4	27	-	15
Borrower balances over 8,000 and up to 20,000	5	43	-	39
Borrower balances over 20,000 and up to 40,000	1	37	-	21
Borrower balances over 40,000 and up to 200,000	5	288	-	223
Total	**1,625,558**	**10,499**	**8,510**	**6,013**
Income receivable and other debtors		16		
Total	**1,625,558**	**10,515**	**8,510**	**6,013**

(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 in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

	December 31, 2008			
	Debtors in respect of credit-card activity			
	Number of borrowers(2)	Total(1)*	Of which: under responsibility of banks	Credit risk(3)*
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,332,511	2,442	2,243	592
Borrower balances over 5 and up to 10	347,124	2,545	2,417	618
Borrower balances over 10 and up to 15	117,768	1,457	1,365	353
Borrower balances over 15 and up to 20	45,234	790	724	191
Borrower balances over 20 and up to 30	29,882	734	642	178
Borrower balances over 30 and up to 40	8,832	310	261	75
Borrower balances over 40 and up to 80	6,145	332	276	80
Borrower balances over 80 and up to 150	971	110	76	27
Borrower balances over 150 and up to 300	320	71	33	17
Borrower balances over 300 and up to 600	135	63	19	15
Borrower balances over 600 and up to 1,200	41	36	13	9
Borrower balances over 1,200 and up to 2,000	27	58	18	14
Borrower balances over 2,000 and up to 4,000	-	-	-	-
Borrower balances over 4,000 and up to 8,000	3	20	-	5
Borrower balances over 8,000 and up to 20,000	1	14	-	3
Borrower balances over 20,000 and up to 40,000	3	94	-	23
Borrower balances over 40,000 and up to 200,000	2	159	-	38
Total	**1,888,999**	**9,235**	**8,087**	**2,238**
Income receivable and other debtors		16		
Total	**1,888,999**	**9,251**	**8,087**	**2,238**

(1) After deducting specific provisions for doubtful debts.

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

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

* Reclassified.

Note 7 – Securities

Reported amounts

In NIS millions

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

	December 31, 2008			
	Balance-sheet value	Depreciated cost (in shares – cost)	Unrecognized profits (losses) from adjustments to fair value	Fair value***
Securities available for sale:				
Shares of others**	61	61	*-	61
Israeli government linked bonds	151	153	(2)	151
Total securities available for sale	**212**	**214**	**(2)**	**212**

* Amount lower than NIS 0.5 million.

** Includes shares for which no fair value is available, which are presented at cost, in the amount of NIS 67 million as of December 31, 2009 (Dec. 31, 2008: NIS 61 million).

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

**** Included in shareholders' equity under the item, "Adjustments for presentation of securities available for sale at fair value," in an amount lower than NIS 0.5 million.

Note 7 – Securities (cont.)

Acquisition of Shares of MasterCard Incorporated ("MC")

On December 13, 2007, the Company purchased 150,380 Class B Common Stock shares of MC from Europay, in consideration for a total of approximately NIS 101 million. The amount of the purchase reflects the fair value of the investment at that date.

Class B shares of MC are blocked and cannot be sold on the stock market in the United States until May 2010; however, they can be transferred in private transactions among MC members.

The aforesaid notwithstanding, MC occasionally allows defined "time windows" during which certain quantities of Class B shares of MC may be converted into Class A shares of MC for sale on or off the stock market, as noted.

Such a "time window" occurred in June 2008, and the Company converted 76,386 shares into Class A shares, and sold the shares on the stock market in consideration for a total of approximately NIS 77 million, at a net profit after tax of approximately NIS 20 million. Following this sale, 73,994 Class B shares of MC remain under the ownership of the Company.

As a member of MC, the Company was permitted to purchase all of the remaining Class B shares held by Europay (Eurocard) Israel Ltd.

The investment in shares of MC is presented on a cost basis under the "securities" item in the balance sheet.

Note 8 – Investments in Affiliates and Information Regarding these Companies

Reported amounts

In NIS millions

A. Consolidated

	December 31, 2009			December 31, 2008		
	Affiliates	Consolidated companies	Total	Affiliates	Consolidated companies	Total
Investments in shares by equity method (including goodwill)	-	277	277	(3)	87	84
Other investments						
Owners' loans	2	-	2	24	-	24
Total investments	**2**	**277**	**279**	**21**	**87**	**108**
Of which – profits (losses) accrued since acquisition date	*-	-	*-	(3)	-	(3)
Items accrued in shareholders' equity since acquisition date						
Details of goodwill:						
Depreciation rate	-	10%	10%	-	-	-
Original amount	-	10	10	-	-	-
Balance for depreciation	-	10	10	-	-	-

B. The Company

Investments in shares by equity method (including goodwill)	*-	277	277	(3)	77	74
Other investments						
Owners' loans	-	9	9	24	11	35
Total investments	***-**	**286**	**286**	**21**	**88**	**109**
Of which – profits (losses) accrued since acquisition date	*-	63	63	(3)	55	52
Items accrued in shareholders' equity since acquisition date						
Details of goodwill:						
Depreciation rate	-	10%	10%	-	-	-
Original amount	-	10	10	-	-	-
Balance for depreciation	-	10	10	-	-	-

Note 8 – Investments in Affiliates and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

The Company's Share in Profits or Losses of Investee Companies

	Consolidated			The Company		
	2009	2008	2007	2009	2008	2007
The Company's share in operating profits of investee companies**	*-	*-	*-	14	9	10
Provision for taxes:						
Current taxes	*-	*-	*-	12	7	5
Deferred taxes	*-	*-	*-	(7)	(4)	(2)
Total provision for taxes	*-	*-	*-	5	3	3
The Company's share in operating profits of investee companies** after tax effect	*-	*-	*-	9	6	7

* Amount lower than NIS 0.5 million.

** In consolidated – affiliates.

Note 8 – Investments in Affiliates and Information Regarding these Companies (cont.)

A. Consolidated Subsidiaries

Company name and activity[1]	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares	
					By equity method[2]	
	2009	2008	2009	2008	2009	2008
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Credit granting	100%	100%	100%	100%	4	1
Isracard Nechasim Ltd.						
Activity: Asset company	100%	100%	100%	100%	83	75
Global Factoring Ltd.						
Activity: Factoring	51%	-	51%	-	11	-
Europay (Eurocard) Israel Ltd.						
Activity: Banking auxiliary corporation	98.2%	-	98.2%	-	180	-

B. Affiliates

Kidum Mivne Iguach Ltd.						
Activity: Granting vehicle loans	20%	-	20%	-	-	-

(1) Details in accordance with Section 32 G of the Public Reporting Directives, Annual Financial Statements.

(2) Including balances of surplus attributed costs and goodwill, net of cumulative losses from impairment.

(3) Balance of goodwill, net of cumulative losses from impairment of goodwill; included in the column, “investment in shares by equity method.”

Note 8 – Investments in Affiliates and Information Regarding these Companies (cont.)

By market value		Goodwill balances(3)		Other capital investments		Contribution to net operating profit	
2009	2008	2009	2008	2009	2008	2009	2008
In NIS millions							
-	-	-	-			2	2
-	-	-	-	2	11	8	5
-	-	10	-	7	8	(1)	-
-	-	-	-	-	-	*-	-
-	-	-	-	2	-	*-	-

Note 8 – Investments in Affiliates and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

D. Information Regarding Subsidiaries Consolidated for the First Time (each company separately)

Company: Europay (Eurocard) Israel Ltd.		At acquisition date
Total assets*		183
Balance of goodwill created by the acquisition of the subsidiary		-
Balance of surplus attributed cost created by the acquisition of the subsidiary		-
Minority rights in the subsidiary		3
Net profit of the company in 2009**	1	
Net profit of the company in 2008**	4	

Company: Global Factoring Ltd.		At acquisition date
Total assets*		27
Balance of goodwill created by the acquisition of the subsidiary		10
Balance of surplus attributed cost created by the acquisition of the subsidiary		10
Minority rights in the subsidiary		2
Net profit of the company in 2009**	(4)	
Net profit of the company in 2008**	(4)	

* According to the books of the company.

** After cancelling inter-company profits in the holding group.

Note 8 – Investments in Affiliates and Information Regarding these Companies (cont.)

Reported amounts
In NIS millions

E. Balance of Goodwill in Respect of Consolidated Companies

	Positive goodwill	(Negative) goodwill	Net (negative) goodwill
Cost	10	(-)	-
Accrued depreciation	-	(-)	-
Depreciated balance	10	(-)	-

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

2. **Tzameret Mimunim Ltd. ("Tzameret Mimunim")** – In July 2009, the Company sold its entire stake in Tzameret Mimunim, which constituted 19% of the issued and paid-up share capital of Tzameret Mimunim, to Hapoalim Nechasim (Menayot) Ltd. ("Hapoalim Nechasim"; a subsidiary of Bank Hapoalim, which prior to the sale held the remaining shares of Tzameret Mimunim). Tzameret Mimunim is engaged in discounting transactions in credit-card sales slips. The consideration received by the Company for the sale is in the amount of approximately NIS 15 million, against the repayment of capital notes which the Company provided to Tzameret Mimunim. On January 31, 2010, the Board of Directors of the Company passed a resolution to acquire the entire holdings of Hapoalim Nechasim in Tzameret Mimunim (100%), in order to centralize the area of credit card sales slip discounting at the Company. This acquisition requires further approvals by Bank Hapoalim.

3. **Global Factoring Ltd. ("Global")** – In August 2009, an agreement was signed between the Company and Global, a private factoring company, and its shareholders, pursuant to which 51% of **the** issued capital of Global (after the allocation) was allocated to Isracard, further to previous legal agreements between the parties. Upon signing the agreement, Global became a banking auxiliary corporation; beyond the rules applicable to auxiliary corporations in general, it is also subject to the instructions in the Bank of Israel's approval of the transaction. Goodwill in the amount of NIS 10 million was generated at the acquisition date.

4. In October 2009, an agreement was signed between the Company, Kidum D.S. (Investments and Finance 1992) Ltd. ("**Kidum Investments**"), and Kidum, pursuant to which shares of Kidum were allocated to the Company, such that following the allocation the Company holds 20% of the paid-up capital of Kidum, while Kidum Investments holds 80% of this capital. Kidum extends loans to the general public for the purchase of second-hand motor vehicles.

Note 9 – Buildings and Equipment

Reported amounts

In NIS millions

Consolidated

A. Composition:

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:								
As of December 31, 2008	69	67	221	78	*-	35	2	472
Additions	-	4	31	44	1	4	1	85
Subtractions	-	-	-	-	*-	-	-	*-
As of December 31, 2009	**69**	**71**	**252**	**122**	**1**	**39**	**3**	**557**
Accrued depreciation:								
As of December 31, 2008	10	26	157	33	*-	22	-	248
Additions	1	2	29	21	*-	2	-	55
Subtractions	-	-	-	-	*-	-	-	*-
As of December 31, 2009	**11**	**28**	**186**	**54**	*-	**24**	**-**	**303**
Depreciated balance as of December 31, 2009	**58**	**43**	**66**	**68**	**1**	**15**	**3**	**254**
Depreciated balance as of December 31, 2008	**59**	**41**	**64**	**45**	*-	**13**	**2**	**224**
Average weighted depreciation rate in 2009	2.0	7.1	24.0	25.0	15.0	6.0	0	
Average weighted deprecation rate in 2008	2.0	6.7	25.0	25.0	15.0	7.8	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

B. The balance-sheet balance of buildings not in use by the Company and its consolidated companies amounted to NIS 17 million on December 31, 2009, similar to the balance on December 31, 2008.

Note 9 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition:

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As of December 31, 2008	10	220	78	*-	34	2	344
Additions	4	31	44	1	4	1	85
Subtractions	-	-	-	*-	-	-	*-
As of December 31, 2009	**14**	**251**	**122**	**1**	**38**	**3**	**429**
Accrued depreciation:							
As of December 31, 2008	1	156	33	*-	21	-	211
Additions	1	29	21	*-	2	-	53
Subtractions	-	-	-	-	-	-	-
As of December 31, 2009	**2**	**185**	**54**	*-	**23**	**-**	**264**
Depreciated balance as of December 31, 2009	**12**	**66**	**68**	**1**	**15**	**3**	**165**
Depreciated balance as of December 31, 2008	**9**	**64**	**45**	*-	**13**	**2**	**133**
Average weighted depreciation rate in 2009	9.9	24.0	25.0	15.0	8.6	0	
Average weighted deprecation rate in 2008	10.0	25.0	25.0	15.0	7.9	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

Note 10 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2009	2008
Deferred taxes receivable (see Note 27)	25	21
Surplus of advance income-tax payments over current provisions	22	13
Balance of expenses for depreciation: intangible property (goodwill)	10	-
Other debtors and debit balances:		
Loans to employees	3	3
Prepaid expenses	17	22
Related companies	62	28
Debtors in respect of factoring	29	-
Others	5	3
Total other debtors and debit balances	116	56
Total other assets	**173**	**90**

Note 11 – Credit from Banking Corporations

	2009		December 31	
	Average annual interest rate		2009	2008
	For daily balance	For transactions in the last month		
	%	%	Reported amounts in NIS millions	
Credit in current drawing accounts	**3.0**	**3.0**	**47**	**6**

Note 12 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2009	2008
Merchants [1]	9,926	9,115
Liabilities in respect of deposits	2	2
Credit-card company	131	93
Prepaid income	2	2
Loyalty program	42	43
Expenses payable	45	51
Others	101	106
Total creditors in respect of credit-card activity	**10,249**	**9,412**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 249 million as of December 31, 2009 (Dec. 31, 2008: NIS 38 million).

Note 13 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2009	2008
Provision for deferred taxes, net (see Note 27)	4	5
Surplus of provision for employee rights over amount funded (see Note 15)	27	37
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	37	21
Suppliers of services and equipment	46	53
Expenses payable	54	53
Institutions	13	8
Europay (Eurocard) Israel Ltd.*	-	181
Others	39	29
Total other creditors and credit balances	189	345
Total other liabilities	**220**	**387**

* With regard to the acquisition of shares of Europay, see Note 8.

Note 14A – Shareholders' Equity

A. Composition

	December 31, 2009 and 2008	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 0.0001	100	73
Special share of NIS 0.0001 (1)	-	-
	100	**73**

(1) One share registered, issued, and paid-up.

Note 14A – Shareholders' Equity (cont.)

B. Share rights

The special share grants its holder the following rights, in addition to the right to receive invitations to, participate in, and vote in the Company's general meetings:

(A) In every general meeting of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

Note 14B – Capital Adequacy According to the Directives of the Supervisor of Banks

A. Consolidated

1. Capital for the calculation of the capital ratio	Dec. 31, 2009		Dec. 31, 2008
	NIS millions		
	Basel II	Basel I	Basel I
Tier 1 capital, after deductions	1,089	1,084	926
Total overall capital	**1,089**	**1,084**	**926**

2. Weighted balances of risk-adjusted assets	Dec. 31, 2009				Dec. 31, 2008	
	Basel II		Basel I		Basel I	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:						
Credit risk	7,226	651	4,437	399	3,893	350
Market risks – foreign currency exchange rate risk	30	3	30	3	31	3
Operational risk	1,183	106	-	-	-	-
Total weighted balances of risk-adjusted assets	**8,439**	**760**	**4,467**	**402**	**3,924**	**353**

Note 14B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

3. Ratio of capital to risk-adjusted assets	Dec. 31, 2009		Dec. 31, 2008
	Percent		
	Basel II	Basel I	Basel I
Ratio of tier 1 capital to risk-adjusted assets	12.9	24.3	*23.6
Ratio of overall capital to risk-adjusted assets	12.9	24.3	*23.6
Minimum overall capital ratio required by the Supervisor of Banks	9	9	9

* Reclassified.

B. Capital Components for the Calculation of the Capital Ratio (in consolidated data)

	Dec. 31, 2009		Dec. 31, 2008
Tier 1 capital	**Basel II(1)**	**Basel I(2)**	**Basel I(2)**
Shareholders' equity	1,094	1,094	924
Minority interests' rights to capital of consolidated subsidiaries	5	-	-
Hybrid capital instruments	-	-	-
Other tier 1 capital components	-	-	-
Less: Goodwill	10	10	-
Less: Net losses in respect of adjustments to fair value of securities available for sale	(*-)	(*-)	(2)
Total tier 1 capital	**1,089**	**1,084**	**926**

1. As implemented according to the temporary order, "A Working Framework for Capital Measurement and Adequacy," of December 31, 2008.
2. As implemented according to Directives No. 311 and 341 of the Supervisor of Banks, "Minimum Capital Ratio" and "Capital Allocation in Respect of Exposure to Market Risks." The titles of certain terms established in these directives and certain interim summaries presented in this note in reports published in the past were adjusted and reclassified according to the disclosure format for the current year.

   Data as of December 31, 2009 under Basel I, as implemented according to the directives of the Supervisor of Banks, are presented in order to clarify the effect of the change in the measurement method of the ratio of capital to risk-adjusted assets and in order to allow comparisons with previous periods.

* Amount lower than NIS 0.5 million.

Note 14B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

C. Qualitative Disclosure

The capital base as of December 31, 2009, in accordance with the Basel II directives, amounted to a total of approximately NIS 1,089 million, versus NIS 1,084 million under Proper Conduct of Banking Business Directive 311. The increase in the capital base due to the implementation of the directive resulted from the inclusion, for the first time, of minority interests' rights to the capital of consolidated subsidiaries in the amount of NIS 5 million.

The weighted total of risk-adjusted assets as of December 31, 2009 under the Basel II directives amounted to approximately NIS 8,439 million, versus NIS 4,467 million under Proper Conduct of Banking Business Directive 311 ("Minimum Capital Ratio") and 341 ("Capital Allocation in Respect of Exposure to Market Risks"), an increase of approximately NIS 3,972 million.

The increase in the balance of risk-weighted assets resulted from the allocation, for the first time, of risk-adjusted assets in the amount of approximately NIS 1,183 million in respect of operational risk, and an increase in risk-weighted assets in respect of credit risk, in the amount of approximately NIS 2,789 million. The increase in the balance of weighted assets attributed to credit risk mainly resulted from unutilized credit facilities in the amount of NIS 2,080 million.

Note 15 – Employee Rights

A. Retirement Compensation and Pensions

1. General

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

2. Personal Contracts – Chairman of the Board of Directors, Deputy Chairman of the Board, and CEO of the Company

(A) Ms. Irit Izakson was elected to serve as Chairperson of the Board of Directors of the Company on September 25, 2008, and she has served as Acting Chairperson of the Board of Directors of the Company and of Europay as of October 1, 2008. The agreement is for a period of three years and three months, beginning on October 1, 2008 and ending on December 31, 2011. Notwithstanding the aforesaid, the parties are entitled to terminate the contractual engagement pursuant to the agreement at any time, including prior to the end of the term of the agreement, with six months' advance notice in writing. During the advance notice period, the Chairperson of the Company shall be entitled to a salary and related terms as specified in the agreement with her. If her employment is terminated, either at her own initiative or at the initiative of the Company, the Chairperson shall be entitled to receive a full supplement of compensation to 100% of the compensation amount, in the event that the amount of the compensation in the policy is lower.

(B) The outgoing Deputy Chairman of the Board of Directors served as CEO of the Company until January 31, 2009. Under his agreement with the Company, upon the end of his term of service as CEO of the Company, he served as Deputy Chairman of the Company under the same terms of employment. Pursuant to a non-competition and consulting agreement recently signed with him, his employment as Deputy Chairman of the Board of Directors of the Company ended on October 31, 2009. The agreement defines a three-year period of non-competition and provision of consulting services, starting on November 1, 2009. The agreement cannot be cancelled. Pursuant to the agreement, the outgoing Deputy Chairman will receive payment in the amount of NIS 1.5 million in respect of non-competition within one year, as well as NIS 75 thousand per month for 36 months. In addition, the outgoing Deputy Chairman will be paid NIS 36 thousand per month for 36 months for consulting services.

Note 15 – Employee Rights (cont.)

A. Retirement Compensation and Pensions (cont.)

(C) The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009 and is employed under a personal contract, pursuant to which at the end of the term of the agreement, or in the event that his employment is terminated, either at his own initiative or at the initiative of the Company, he shall be entitled to receive the full provisions for retirement pay, pensions, and compensation, as well as a supplement of the amount of compensation to 100% if the amount of the compensation is lower.

He will also be entitled to the payment of his full terms of employment during the advance notice period prior to the cessation of his term of service, which is three months in the event of termination at his own initiative, or six months in the event of termination other than at his initiative.

The terms of employment of the CEO were approved by the Audit Committee and the Board of Directors of the Company.

The financial statements include adequate provisions to cover the liabilities detailed in Sections 2(A)-(C) above.

B. Bonuses

1. Pursuant to her employment agreement, the Chairperson of the Board of Directors shall be entitled to an annual bonus at varying rates, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group where she serves as Chairperson of the Board of Directors, relative to a baseline profit of NIS 160 million. The total bonus each year shall be the amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for the receipt of a bonus in a particular year.

2. Under his employment agreement, the CEO of the Company is entitled to an annual bonus at varying rates, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group in which he serves as CEO relative to the baseline profit, which is the average annual profit in 2007-2008 (excluding nonrecurring events that are not part of the ordinary course of the Company's business).

   The total bonus each year will be in an amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for the receipt of a bonus in a particular year.

Note 15 – Employee Rights (cont.)

B. Bonuses (cont.)

3. Under an agreement signed between Bank Hapoalim (hereinafter: "the Bank") and the Employees' Union of the Bank, some employees are entitled to an annual bonus expressed in units of monthly wages at varying amounts, based on the Bank's rate of net return on equity. The bonus for each individual employee is differential and is based on the employee's achievements. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus. Based on the expected rate of net return on equity of the Bank in 2009, these employees are not entitled to an annual bonus.

4. Pursuant to his employment agreement, the Bank allocated 800,000 phantom units (a monetary grant based on the change in the price of the Bank's share on the Tel Aviv Stock Exchange) to the outgoing Deputy Chairman of the Board of Directors, at no cost, for the years 2007-2009. Should the Company's shares be floated to the public, he will be granted phantom units and/or option notes for shares of Isracard, and/or shares of Isracard at a value or at terms as granted to the CEO of the Company serving at that time. In such a case, the Deputy Chairman of the Board of Directors will be entitled to exercise a relative part of the 800,000 phantom units allocated to him by the Bank reflecting the ratio of the period from January 1, 2007 until the date of the floating of the Company's shares to the public, to the entire period of the agreement.

5. Some employees on loan from the Bank are entitled to a "Jubilee Grant" at the end of 25 years of employment at the Company.

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

The financial statements include appropriate provisions in respect of Sections (5) and (6) above, based on actuarial calculations, which include a real wage increment at a rate of 1% per year, and capitalized at an annual discount rate of 4%, with a total balance of approximately NIS 5 million (2008: NIS 6 million).

The financial statements include full provisions for all of the aforesaid bonuses.

C. Liabilities in respect of the termination of employer-employee relationships

The balance of the provision in respect of liabilities for the termination of employer-employee relationships stands at NIS 48 million (2008: NIS 44 million).

Note 15 – Employee Rights (cont.)

D. Vacations

The Company’s employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees’ most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 2 million (2008: NIS 3 million).

E. Retirement Program

The balance of the provision for retirement programs implemented in recent years for employees of the Bank on loan to the Company amounts to NIS 13 million. The provision is based on actuarial calculations, including a real wage increment at a rate of 1% per year, and capitalized at an annual discount rate of 4% (2008: NIS 13 million).

The balance of non-pension post-retirement benefits amounts to NIS 6 million.

The amounts of reserves and amounts funded for employee rights, as stated in the balance sheet, are as follows:

	December 31	
	2009	**2008**
Amount of provision	70	67
Amounts funded	43	30
Surplus of provision over amounts funded*	27	37

* Included under the item "other liabilities."

F. Options to Employees

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

F. Options to Employees (cont.)

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

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

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

The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 5721-1961. Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010.

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

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

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

Note 15 – Employee Rights (cont.)

F. Options to Employees (cont.)

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

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

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

3. Options to employees

(A) In May 2004, the Board of Directors of the Bank approved an option allocation program for the Bank's employees for 2004-2009. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, will be allocated nontradable option notes, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Under the terms of the program, the option notes will be granted in six equal annual portions over the course of six years, and will be exercisable starting when 48 months have elapsed from January 1 of the year in which they were granted.

Up to and including 2009, 479,390 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 6 million.

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

The agreement states that options will be granted to employees provided that approval is obtained from the Supervisor of Banks for the purchase of the Bank's own shares by the Bank, in order to create a reserve to be used for the exercise of the aforesaid options. If such approval is not obtained, the Bank is permitted to grant phantom units instead of the option notes. The plan will be treated as a share-based payment transaction settled in cash, until the manner of settlement is clarified.

Note 15 – Employee Rights (cont.)

G. Wage Agreement

In October 2007, understandings were reached between the Board of Management of the Bank and the Employees' Union of the Bank with regard to the terms of employment of employees on loan from the Bank. These understandings are intended to cover all remuneration of employees for the period from 2005 to 2012.

In accordance with the understandings, the Bank paid its employees, including employees of the Company on loan from the Bank, a one-time bonus in the amount of one monthly salary on November 1, 2007. Another bonus in the amount of one monthly salary was paid to employees on January 1, 2009. Employees' combined salaries increased by 3.5% as of January 1, 2008. As part of the understandings, the agreements reached between the Board of Management of the Bank and the Employees' Union in March 2004 with regard to the option plan for Bank employees, the manner and extent of ranking, the pace of promotions, the seniority mechanism, and the annual bonus will be extended and will remain in effect until the end of 2012.

Note 16 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2009					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	441	6	35	11	-	493
Debtors in respect of credit-card activity	10,403	59	53	*-	-	10,515
Securities	11	100	-	-	67	178
Investments in affiliated companies	-				2	2
Buildings and equipment		-	-	-	254	254
Other assets	143	3	-	-	27	173
Total assets	**10,998**	**168**	**88**	**11**	**350**	**11,615**
Liabilities						
Credit from banking corporations	47	-	-	-	-	47
Creditors in respect of credit-card activity	10,037	51	69	-	92	10,249
Other liabilities	216	-	-	-	4	220
Total liabilities	**10,300**	**51**	**69**	**-**	**96**	**10,516**
Difference	**698**	**117**	**19**	**11**	**254**	**1,099**

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	December 31, 2008					
	Israeli currency		Foreign currency(1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	894	8	26	3	-	931
Debtors in respect of credit-card activity**	9,123	53	75	*-	-	9,251
Securities	-	151	-	-	61	212
Investments in affiliated companies	-	-	-	-	21	21
Buildings and equipment	-	-	-	-	224	224
Other assets**	65	3	-	-	22	90
Total assets	**10,082**	**215**	**101**	**3**	**328**	**10,729**
Liabilities						
Credit from banking corporations	6	-	-	-	-	6
Creditors in respect of credit-card activity	9,193	49	84	-	86	9,412
Other liabilities	392	-	(10)	-	5	387
Total liabilities	**9,591**	**49**	**74**	**-**	**91**	**9,805**
Difference	491	166	27	3	237	924
Effect of hedging derivative instruments:						
Derivative instruments (excluding options)	11	-	(11)	-	-	-

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2009					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	6,382	2,106	2,034	364	63	12
Liabilities	5,544	2,325	2,012	326	65	3
Difference	838	(219)	22	38	(2)	9
CPI-linked Israeli currency						
Assets	33	13	111	2	1	5
Liabilities	26	12	11	2	-	-
Difference	7	1	100	-	1	5
Foreign currency(3)						
Assets	66	14	17	2	-	-
Liabilities	33	10	11	2	-	-
Difference	33	4	6	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

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

(2) As included in Note 16, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

* Amount lower than NIS 0.5 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance(2)		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(4)	Total	Contractual rate of return
-	-	-	-	10,961	51	10,998	0.24%
2	6	4	2	10,289	12	10,300	0.02%
(2)	(6)	(4)	(2)	672	39	698	-
3	-	-	-	168	-	168	0%
-	-	-	-	51	-	51	0%
3	-	-	-	117	-	117	-
-	-	-	-	99	-	99	0%
-	-	-	-	56	13	69	0%
-	-	-	-	43	(13)	30	-
-	-	-	-	-	350	350	-
-	-	-	-	-	96	96	-
-	-	-	-	-	254	254	-

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2009					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	**Over 1 month and up to 3 months**	**Over 3 months and up to 1 year**	**Over 1 year and up to 2 years**	**Over 2 years and up to 3 years**	**Over 3 years and up to 4 years**
Total						
Assets	6,481	2,133	2,162	368	64	17
Liabilities	5,603	2,347	2,034	330	65	3
Difference	878	(214)	128	38	(1)	14

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

(2) As included in Note 16, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

* Amount lower than NIS 0.5 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[3]	Total	Contractual rate of return[5]
3	-	-	-	11,228	401	11,615	0.23%
2	6	4	2	10,396	121	10,516	0.02%
1	(6)	(4)	(2)	832	280	1,099	-

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2008					
	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	5,772	1,922	1,880	411	80	2
Liabilities	4,916	2,211	1,882	310	59	2
Difference	856	(289)	(2)	101	21	-
CPI-linked Israeli currency						
Assets	29	12	11	152	1	2
Liabilities	24	12	11	2	*-	-
Difference	5	-	-	150	1	2
Foreign currency(3)						
Assets	62	17	23	2	*-	-
Liabilities	39	14	4	2	1	-
Difference	23	3	19	-	(1)	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

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

(2) As included in Note 16, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency-linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 10 million.

* Amount lower than NIS 0.5 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

				Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total
-	-	-	-	10,067	31	10,082
2	6	4	3	9,395	196	9,591
(2)	(6)	(4)	(3)	672	(165)	491
8	-	-	-	215	-	215
-	-	-	-	49	*-	49
8	-	-	-	166	*-	166
-	-	-	-	104	*-	104
-	-	-	-	60	14	74
-	-	-	-	44	(14)	30
-	-	-	-	-	328	328
-	-	-	-	-	91	91
-	-	-	-	-	237	237

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2008					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	5,863	1,951	1,914	565	81	4
Liabilities	4,979	2,237	1,897	314	60	2
Difference	884	(286)	17	251	21	2

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

(2) As included in Note 16, "Assets and Liabilities by Linkage Base."

(3) Including assets whose maturity date has elapsed in the amount of NIS 10 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

						Balance-sheet balance[2]
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[3]	Total
8	-	-	-	10,386	359	10,729
2	6	4	3	9,504	301	9,805
6	(6)	(4)	(3)	882	58	924

Note 18 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	December 31	
	2009	2008
Unutilized credit-card credit lines:		
Credit risk on the Company and its consolidated companies	6,013	2,238
Credit risk on banks	31,053	31,862

In 2008, credit lines for current transactions for holders of bank credit cards were provided by banks that are members of the Isracard Arrangement (see also Note 18G below), and are the responsibility of each banking corporation that has provided its customer such a credit line.

	December 31	
	2009	2008
Other liabilities:		
Exposure in respect of check guarantees	18	13

B. Activity in Derivative Instruments – Volume and Maturity Dates

On October 1, 2009, the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., as described below:

- The transaction is as of October 5, 2009 and matures on October 5, 2010. The amount of the transaction is NIS 10 million.
- In the swap transaction, the Company will pay the Bank a fixed interest rate of 2.3% and will receive a floating interest rate to be set each quarter. The floating rate for the first period was set at 1.2%.
- The transaction is stated in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

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

C. Antitrust Issues and Recommendations for Additional Regulation

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

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

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

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

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

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

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

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

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

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

The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted a temporary permit for the Arrangement, in effect until June 30, 2010.

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

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

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

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

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it ruled on the petition, an expert would be appointed to establish the components included in the principles set forth by the Tribunal with regard to the calculation of interchange fees in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January. The expert was to have continued to formulate his final opinion, but before he had completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be barred from completing the opinion. The Company cannot estimate whether or when the request for permanent approval of the Arrangement will be granted.

The Company signed the Domestic Agreement in May 2007.

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

The Company estimates that the possible materialization of any of the following factors: large-scale acquiring of transactions in MasterCard cards by additional acquirers other than the Company; implementation of the Arrangement and its terms, including reduction of the fee; or the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof, may influence the Company's course of action and may have a material adverse effect on the Company's financial results in the future; however, the Company cannot estimate the extent of such an effect.

D. Additional Regulation

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

2. In April 2009, a private bill was submitted to Knesset concerning the promotion of competition in the area of automatic refueling. The bill gained preliminary approval on July 8, 2009 and was transferred to the Economics Committee to be prepared for a first reading. The bill may be relevant to the Company, due to the fact that the Company issues refueling devices that constitute “charge cards” under the Charge Cards Law, 5746-1986. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

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

D. Additional Regulation (cont.)

3. A private bill was submitted to Knesset in April 2009, and a government bill was passed in the first reading in January 2010, both concerning the postponement of debits for cardholders who enter into ongoing transactions for medical services or emergency medicine. 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 the Company estimates that its extent is immaterial.

4. 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.

5. A private bill was submitted to Knesset in May 2009 concerning the duty to note approvals and material terms of uniform contracts. The bill gained preliminary approval on July 8, 2009 and was transferred to the Constitution, Law, and Justice Committee to be prepared for a first reading. 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 the Company estimates that its extent is immaterial.

6. 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.

7. 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.

E. Legal Proceedings

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in a total amount of approximately NIS 7 million. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low; therefore, no provision was made in respect of these claims.

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

E. Legal Proceedings (cont.)

2. In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Europay, along with a petition to certify the claim as a class action. The amount of the personal claim stated in the claim statement in NIS 82, and the amount of the class-action suit is NIS 16 million. The petition for class-action status mainly concerns the allegation that the "triple" conversion method applied by the respondents in transactions executed by Israelis in most European countries, in respect of which they were debited in NIS, constitutes a violation of the agreement with the credit-card holders. The relevant period is from December 1, 2001 to March 31, 2005.

   In the discussion of this petition, the court proposed conclusion of the proceedings by way of a settlement. The parties gave notice of their consent to the proposal of the court. This notification by the parties was granted the status of a verdict on July 23, 2009.

   Pursuant to the verdict, the Company and Europay will establish a scholarship fund in the amount of NIS 1,440,000 to provide scholarships to students from peripheral communities. In addition, the representative of the applicant was paid a fee of NIS 300,000 plus VAT, and the claimant was paid compensation in the amount of NIS 25,000.

3. In February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements, in violation of the provisions of the Banking Rules (Service to Customers) (Fees), 5768-2008. The requested remedy is a refund of the charges performed. At this early stage, it is difficult to estimate the probable outcome of these proceedings.

F. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company.

The aggregate amount of the indemnification to be provided by the Company, pursuant to the commitment, to all directors of the Company in respect of one or more indemnification events shall not exceed 30% of its shareholders’ equity according to its financial statements as of June 30, 2004 (which stood at a total of NIS 440 million).

G. Agreements with a Subsidiary and with Sister Companies

The Company has agreements with Europay, Poalim Express, and Aminit, which are a subsidiary and sister companies (hereinafter: the “**Companies**”), for the operation of their credit-card systems.

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

G. Agreements with a Subsidiary and with Sister Companies (cont.)

The Company operates the Companies' credit-card issuance and acquiring activity, as well as the acquiring of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

H. Contractual Engagements with Banking Corporations

1. The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim B.M. (the Parent Company), Mizrahi Bank, Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**").

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

2. **Contractual engagement with Bank Yahav** – In January 2009, the existing agreements of the Company and Europay with Bank Yahav with regard to the various payments paid to Bank Yahav were updated, in a manner related to the volume of activity in cards issued by the Company and by Europay to customers of Bank Yahav.

I. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles. The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2009	2008
	NIS millions	
First year	21	19
Second year	9	18
Third year	8	5
Fourth year	7	5
Fifth year	6	5
Over five years	6	8

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

J. Contractual Engagements with Customer Clubs

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

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

In addition, new Hever members were granted the option of purchasing DVD players at a cost subsidized by the Company and the Hever club, for which an adequate provision was recorded in the financial statements.

Contractual engagement in Life-Style Club agreement – In December 2008, the Company, Super-Pharm (Israel) Ltd. ("**Super-Pharm**"), and Alonyal Ltd. ("**Alonyal**") entered into a shareholders' agreement in which the company Life-Style Customer Loyalty Club Ltd. (the "**Life-Style Company**") was established, and the entire existing activity of the Life-Style Club was assigned to it; in addition, the company Life-Style Financing Ltd. (the "**Financing Company**") was established.

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

Within the contractual engagement between the Company and the Life-Style Club, a campaign for holders of the new Life-Style card was agreed upon, in which cardholders will be awarded a monetary refund according to the volume of usage and the terms of the campaign. An adequate provision was recorded in the financial statements.

Note 19 – Fair Value of Financial Instruments

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

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

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

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

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance sheet date.

Debtors in respect of credit-card activity – By discounting future cash flows, mostly according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Securities – Tradable securities: at market value.

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Note 19 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and fair-value estimates of financial instruments

	December 31, 2009			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	481	12	493	493
Debtors in respect of credit-card activity	-	10,524	10,524	10,507
Securities(3)	111	67	178	178
Other financial assets	-	99	99	99
Total financial assets	**592**	**10,702**	**11,294**	**11,277**
Financial liabilities:				
Credit from banking corporations	28	19	47	47
Creditors in respect of credit-card activity	-	10,156	10,156	10,126
Other financial liabilities	-	177	177	173
Total financial liabilities	**28**	**10,352**	**10,380**	**10,346**

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

(2) Other financial instruments.

(3) Includes shares that have no available fair value, stated at cost, in the amount of NIS 67 million.

Note 19 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and fair-value estimates of financial instruments (cont.)

	December 31, 2008			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	914	17	931	932
Debtors in respect of credit-card activity*	6,868	2,391	9,259	9,196
Securities(3)	151	61	212	212
Other financial assets	30	3	33	32
Total financial assets	**7,963**	**2,472**	**10,435**	**10,372**
Financial liabilities:				
Credit from banking corporations	6	-	6	6
Creditors in respect of credit-card activity*	7,121	2,291	9,412	9,266
Other financial liabilities*	129	216	345	341
Total financial liabilities	**7,256**	**2,507**	**9,763**	**9,613**

(1) Financial instruments whose balance-sheet balance is the estimated fair value; instruments presented in the balance sheet at market value; or instruments for an original period of up to 3 months, or based on a floating market interest rate that varies at a frequency of up to 3 months.

(2) Other financial instruments.

(3) Includes shares that have no available fair value, stated at cost, in the amount of NIS 61 million.

* Reclassified.

Note 20 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2009							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	285	899	-	-	-	-	-	-
Debtors in respect of credit-card activity(1)	1	1	-	-	-	-	1	1
Securities	-	-	-	-	-	-	11	11
Investments	-	-	-	-	-	13	-	-
Other assets	2	3	-	-	-	*-	59	87
Liabilities								
Credit from banking corporations	25	33	-	-	-	-	-	-
Creditors in respect of credit-card activity	60	72	-	-	-	379	109	109
Other liabilities	*-	1	9	9	-	-	-	181
Shares (included in shareholders' equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	18,213	20,905	-	-	-	-	-	-
Guarantees given by banks	5,047	5,047	-	-	-	-	-	-

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

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2008							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	929	1,205	-	-	-	-	-	-
Debtors in respect of credit-card activity(1)	*-	*-	-	-	-	-	1	1
Securities	-	-	-	-	-	-	11	11
Investments	-	-	-	-	13	13	-	-
Other assets	*-	6	-	-	*-	*-	28	37
Liabilities								
Credit from banking corporations	6	21	-	-	-	-	-	-
Creditors in respect of credit-card activity	58	86	-	-	334	354	97	102
Other liabilities	1	3	6	6	-	-	181	217
Shares (included in shareholders' equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	19,790	19,790	-	-	-	-	-	-
Guarantees given by banks	4,885	5,385	-	-	-	-	-	1,077

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

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

B. Summary of Results of Business with Interested and Related Parties

	For the year ended December 31, 2009		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	-	-	1
Profit (loss) from financing activity before provision for doubtful debts	*-	-	(3)
Other income	4	-	17
Operating expenses	-	-	1
General and administrative expenses	-	(18)	-
Payments to banks(1)	(228)	-	-
Total	**(224)**	**(18)**	**16**

	For the year ended December 31, 2008		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	5	-	2
Profit (loss) from financing activity before provision for doubtful debts	19	-	(9)
Other income	4	-	**16
Operating expenses	-	-	**1
General and administrative expenses	-	(2)	-
Payments to banks(1)	(257)	-	(21)
Total	**(229)**	**(2)**	**(11)**

(1) See Note 18H to the Financial Statements.

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

C. Benefits to Interested Parties (From the Credit-Card Company)

	For the year ended December 31, 2009							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	18	8	-	-

	For the year ended December 31, 2008							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	2	7	-	-

D. Additional Details

- See Note 7 – Purchase of shares from Europay (Eurocard) Israel Ltd.
- See Note 15 – Employee rights.
- See Note 18 – Contingent liabilities and special agreements.

Note 21 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
Income from merchants:			
Merchant fees	905	904	*873
Other income	11	10	9
Total gross income from merchants	**916**	**914**	**882**
Income in respect of credit-card holders:			
Issuer fees	77	*60	*39
Service fees	145	*145	*134
Fees from transactions abroad	30	*27	21
Total income in respect of credit-card holders	**252**	**232**	**194**
Total income from credit-card transactions	**1,168**	**1,146**	**1,076**

* Reclassified.

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

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
A. Financing income in respect of assets:			
From credit to cardholders	35	27	17
From credit to merchants	13	14	3
From deposits with banks	4	26	43
From bonds	8	7	-
From other assets	1	3	1
Total in respect of assets	**61**	**77**	**64**
B. Financing expenses in respect of liabilities:			
To banking corporations	4	5	5
On other liabilities	2	9	11
Total in respect of liabilities	**6**	**14**	**16**
C. In respect of derivative instruments and hedging activity:			
Non-effective share of hedging ratio	*-	*-	*-
Total in respect of derivative instruments and hedging activity	***-**	***-**	***-**
D. Other:			
Other financing income	13	11	9
Total profit from financing activity before provision for doubtful debts(1)	**68**	**74**	**57**
(1) Of which: exchange-rate differences, net	11	10	10

* Amount lower than NIS 0.5 million.

Note 22 – Profit from Financing Activity before Provision for Doubtful Debts (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
E. Details of results of operations in investments in bonds:			
Financing income on an accrual basis from bonds:			
Available for sale	9	7	-
Total included in profit from financing activity in respect of assets	**9**	**7**	**-**
Profits from sale of bonds available for sale	2	-	-
Total included in other financing income	**2**	**-**	**-**
Total	**11**	**7**	**-**

Note 23 – Other Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
From rental of assets	4	4	5
Operating fees from related parties	17	15	11
Profit from sales of shares	-	26	-
Others	9	3	2
Total other income	**30**	**48**	**18**

Note 24 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
Wages and related expenses	122	124	113
Data processing and computer maintenance	26	22	22
Automatic Bank Services (ABS)	13	16	15
Operating fees to MasterCard International	29	30	24
Fees to other issuers	63	54	43
Amortization and depreciation	55	42	26
Communications	7	6	6
Production and delivery	91	83	77
Damages from abuse of credit cards	6	4	6
Rent and building maintenance	24	21	17
Others	16	3	6
Total operating expenses	**452**	**405**	**355**

Note 25 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
Wages and related expenses	40	40	35
Advertising	42	54	57
Customer retention and recruitment	7	8	11
Gift campaigns for credit-card holders	34	35	32
Travel insurance for credit-card holders	*-	*-	*-
Vehicle maintenance	5	5	4
Others	4	3	3
Total sales and marketing expenses	**132**	**145**	**142**

* Amount lower than NIS 0.5 million.

Note 26 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2009	**2008**	**2007**
Wages and related expenses	30	15	16
Professional services	13	10	8
Insurance	6	5	7
Benefit due to share allocation	5	*5	1
Others	15	*16	12
Total general and administrative expenses	**69**	**51**	**44**

* Reclassified.

Note 27 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31		
	2009	2008	2007
Current taxes for the tax year	61	70	57
Deferred taxes for the tax year	(6)	(6)	(4)
Taxes for previous years	2	-	-
Provision for taxes on income	**57**	**64**	**53**

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		
	2009	2008	2007
Tax rate applicable to the Company in Israel	26%	27%	29%
Tax amount based on statutory rate	55	64	57
Tax increment (saving) in respect of:			
Unrecognized expenses	4	1	1
Deferred tax income due to changes in tax rates	(3)	(1)	*-
Tax expenses for previous years	2	-	-
Effect of Adjustment for Inflation Law, 5745-1985	-	-	(5)
Credit for donations	(1)	-	-
Provision for taxes on income	**57**	**64**	**53**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2006.

   For subsidiaries, final tax assessments have been issued up to and including the tax year 2004, including tax assessments considered to be final under the Income Tax Ordinance.

Note 27 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred Tax Balances and Provision for Deferred Taxes:

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2009	2008	2009	2008
From provision for doubtful debts	19	11	-	-
From provision for vacations and bonuses	1	2	-	-
From surplus of provision for compensation and pensions over the amount funded	4	9	-	-
From adjustment of depreciable non-monetary assets	-	-	4	5
From others	1	-	-	-
Adjustment of securities and derivatives	*-	(1)	*-	-
Total	**25**	**21**	**4**	**5**

* Amount lower than NIS 0.5 million.

5. Reduction in Tax Rates

On July 25, 2005, the Knesset approved the Income Tax Ordinance Amendment Law (No. 147), 5765-2005, which among other matters sets forth a gradual reduction of the corporation tax rate, to 25% from the tax year 2010 forward.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 5769-2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from 2016 forward.

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

The implementation of these legislative amendments has no material impact on the financial statements.

Note 28 – Operating Segments

A. General

The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC").

The Issuance Segment

The Company issues and operates Isracard credit cards (a private brand) and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

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

Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad.

Interchange fees are fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer.

Main expenses associated with this segment: marketing, advertising, and management of customer clubs; loyalty programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Acquiring Segment

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

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

Note 28 – Operating Segments (cont.)

Main income items associated with this segment: fees from merchants, net of interchange fees which are allocated to the Issuance Segment, and net financing income.

Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance Segment and/or the Acquiring Segment, each of which does not constitute a reportable segment. In addition, one-time income from the sale of shares of MC is included in this segment.

Note 28 – Operating Segments (cont.)

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2009			
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Other[(1)]**	**Total**
Income				
Fees from externals	249	918	1	1,168
Inter-segmental fees	717	(717)	-	-
Total	**966**	**201**	**1**	**1,168**
Profit from financing activity before provision for doubtful debts	49	18	1	68
Other income	2	3	25	30
Total income	**1,017**	**222**	**27**	**1,266**
Expenses				
Provision for doubtful debts	25	1	3	29
Operating expenses	296	151	5	452
Sales and marketing expenses	102	27	3	132
General and administrative expenses	45	22	2	69
Payments to banks	373	1	-	374
Total expenses	**841**	**202**	**13**	**1,056**
Operating profit before taxes	**176**	**20**	**14**	**210**
Provision for taxes on operating profit	48	5	4	57
Operating profit after taxes	**128**	**15**	**10**	**153**
The Company's share in profits of affiliated companies	-	-	*-	*-
Minority interests' share in net operating losses after taxes of consolidated companies	-	-	1	1
Net profit	**128**	**15**	**11**	**154**
Return on equity (percent net profit out of average capital)	12.7	1.50	1.1	15.3
Average balance of assets	9,626	1,026	276	10,928
Of which: investments in affiliated companies	-	-	15	15
Average balance of liabilities	204	9,679	52	9,935
Average balance of risk-adjusted assets	4,167	347	104	4,618

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

* Amount lower than NIS 0.5 million.

Note 28 – Operating Segments (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**	**Other(1)**	**Total**
Income				
Fees from externals**	231	914	1	1,146
Inter-segmental fees	730	(730)	-	-
Total	**961**	**184**	**1**	**1,146**
Profit from financing activity before provision for doubtful debts	43	29	2	74
Other income**(2)	1	-	47	48
Total income	**1,005**	**213**	**50**	**1,268**
Expenses				
Provision for doubtful debts**	12	2	-	14
Operating expenses**	264	134	7	405
Sales and marketing expenses	109	31	5	145
General and administrative expenses	36	14	1	51
Payments to banks	398	18	-	416
Total expenses	**819**	**199**	**13**	**1,031**
Operating profit before taxes	**186**	**14**	**37**	**237**
Provision for taxes on operating profit	50	4	10	64
Operating profit after taxes	**136**	**10**	**27**	**173**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**136**	**10**	**27**	**173**
Return on equity (percent net profit out of average capital)	16.0	1.0	3.2	20.2
Average balance of assets	9,029	1,478	202	10,709
Of which: investments in affiliated companies	-	-	21	21
Average balance of liabilities	344	9,465	47	9,856
Average balance of risk-adjusted assets	2,202	803	178	3,183

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

(2) Includes nonrecurring income in respect of the sale of shares of MC, in the amount of NIS 26 million.

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 28 – Operating Segments (cont.)

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2007			
Profit and loss information	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Income				
Fees from externals**	193	883	-	1,076
Inter-segmental fees	700	(700)	-	-
Total	**893**	**183**	**-**	**1,076**
Profit from financing activity before provision for doubtful debts	32	23	2	57
Other income**	1	-	17	18
Total income	**926**	**206**	**19**	**1,151**
Expenses				
Provision for doubtful debts	7	*-	-	7
Operating expenses	233	117	5	355
Sales and marketing expenses	111	31	-	142
General and administrative expenses	28	15	1	44
Payments to banks	378	30	-	408
Total expenses	**757**	**193**	**6**	**956**
Operating profit before taxes	**169**	**13**	**13**	**195**
Provision for taxes on operating profit	45	4	4	53
Operating profit after taxes	**124**	**9**	**9**	**142**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**124**	**9**	**9**	**142**
Return on equity (percent net profit out of average capital)**	16.0	1.2	1.2	18.4

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

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 29 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2009	2008
Total assets	11,728	10,693
Total liabilities	10,653	9,788
Shareholders' equity	1,075	905
Nominal net profit	154	173

Note 30 – Condensed Balance Sheets and Statements of Profit and Loss

Reported amounts

In NIS millions

A. Balance Sheets of the Company

	December 31	
	2009	**2008**
Assets		
Cash on hand and deposits with banks	473	921
Debtors in respect of credit-card activity	9,779	*8,745
Securities	178	212
Investments in investee companies	285	109
Buildings and equipment	165	133
Other assets	867	*592
Total assets	**11,747**	**10,712**
Liabilities		
Credit from banking corporations	25	5
Creditors in respect of credit-card activity	10,249	9,412
Other liabilities	379	371
Total liabilities	**10,653**	**9,788**
Shareholders' equity	1,094	924
Total liabilities and capital	**11,747**	**10,712**

* Reclassified.

Note 30 – Condensed Balance Sheets and Statements of Profit and Loss (cont.)

Reported amounts

In NIS millions

B. Statements of Profit and Loss of the Company

	For the year ended December 31		
	2009	**2008**	**2007**
Income			
From credit-card transactions	1,169	1,146	1,076
Profit from financing activity before provision for doubtful debts	31	54	48
Others	27	44	14
Total income	**1,227**	**1,244**	**1,138**
Expenses			
Provision for doubtful debts	6	*-	*-
Operating expenses	451	407	359
Sales and marketing expenses	130	143	142
General and administrative expenses	68	50	44
Payments to banks	374	416	408
Total expenses	**1,029**	**1,016**	**953**
Operating profit before taxes	**198**	**228**	**185**
Provision for taxes on operating profit	53	61	50
Operating profit after taxes	**145**	**167**	**135**
The Company's share in operating profits of investee companies after tax effect	**9**	**6**	**7**
Net profit	**154**	**173**	**142**

* Amount lower than NIS 0.5 million.