Europay (Eurocard) Israel Ltd.

# Annual Report

For the year ended December 31, 2009

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Europay (Eurocard) Israel Ltd.

# 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 financial statements of Europay (Eurocard) Israel Ltd. ("**the Company**" or "**Europay**") for the year 2009.

## Description of the General Development of the Company's Business

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

The Company is a credit-card company and an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981 ("**auxiliary corporation**"). The Company has no subsidiaries or other investee companies.

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

Ms. Irit Izakson serves 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, in this position. Mr. Krupsky's service as Deputy Chairperson of the Board of Directors ended at the end of October 2009.

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

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

### Developments in the Global Economy

The 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 in growth 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. 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.

## 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 1.0% 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. Decreases in the interest rate have a negative effect on the financing income of the Company.

## The Credit-Card Industry in Israel

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

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 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.

## Profit and Profitability

**The Company's net profit** totaled NIS 1 million, compared with NIS 4 million in 2008, a decrease of 75%. The decrease mainly resulted from a decrease in financing profit.

**Net return of pretax operating profit on average equity** reached 1.1%, compared with 3.3% in 2008.

**Net return on average equity** reached 0.5%, compared with 2.2% in 2008.

## Developments in Balance-Sheet Items

**The balance sheet** as of December 31, 2009 totaled NIS 183 million, compared with NIS 182 million at the end of 2008.

**Shareholders' equity** totaled NIS 183 million on December 31, 2009, compared with NIS 182 million at the end of 2008. The increase resulted from the Company's net profit, in the amount of NIS 1 million.

**The ratio of shareholders' equity to the balance sheet** reached 100% on December 31, 2009, similar to December 31, 2008.

**The ratio of capital to risk-adjusted assets according to Proper Conduct of Banking Business Directive No. 311** reached 101.1% on December 31, 2009, compared with 100.6% on December 31, 2008.

**The ratio of capital to risk-adjusted assets according to the Basel II directives** reached 173.1% on December 31, 2009.

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

## Credit-Card Issuance

### 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, Isracard, Poalim Express, Aminit, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

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

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

Bank cards issued by the Company and Isracard are distributed to owners of accounts at banks with which the Company and Isracard have agreements, including Bank Hapoalim, Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**").

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

**Critical success factors in the operating segment.** In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) brand image; (3) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service;

(6) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a risk-management system and credit controls; (9) the ability to recruit and retain customers through a supporting marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency and preservation of size advantage.

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

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

### Products and Services

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

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

### Contractual Engagements with Banking Corporations

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

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

**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 and distribution activity in the Credit-Card Issuance Segment is conducted through Isracard (which administers and operates credit-card issuance activity on behalf of the Company), on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, 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, a website, and more. See also risk factors with regard to the cessation of activity of a bank in Israel and competition.

Within the activity of customer clubs, the Company customarily joins the agreements entered into by Isracard with various entities representing various customer groups, in arrangements for the issuance of 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 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.

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

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

**Competition**

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

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

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

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

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

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

## Credit-Card Acquiring

### General

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

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

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

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

For details with regard to regulation in this area, various directives in the area of cross-acquiring of MasterCard and Visa credit cards imposed upon credit-card companies in Israel by the Antitrust

Commissioner in 2007 (the "**Cross-Acquiring Arrangement**"), and the Antitrust Commissioner's declaration of Isracard as the holder of a monopoly in acquiring Isracard and MasterCard credit cards in May 2005, see "Restrictions and Supervision of the Company's Operations," below.

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

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

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

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

**Products and Services**

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

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

**Segmentation of Income from Products and Services**

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

**Customers**

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it. As of the date of the report, the Company did not derive revenues from any particular merchant constituting 10% or more of its total revenues in 2009.

**Marketing and Sales**

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

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

**Competition**

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

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

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

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

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

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

Negative factors affecting the Company's competitive standing include, among others, 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."

### Seasonality

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

## Intangible Assets

The Company holds a long-term Principal Member license from the MasterCard Organization for the issuance and acquiring of MasterCard cards in Israel. In addition, as a member of the MasterCard

Organization, the Company has a general right to use the brands owned by the MasterCard Organization, primarily "MasterCard."

In the course of their operations, the Company and Isracard are subject to the provisions of the Protection of Privacy Law, 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 their agreements.

## Human Capital

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

## Service Providers

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

## Other Matters

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

## Taxation

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

## Restrictions and Supervision of the Company's Operations

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

In addition, the Company is an "auxiliary corporation" under the Banking Law (Licensing). As a credit-card company and as an auxiliary corporation, a further system of rules, orders, and regulations applies to the Company, including: the Banking Law (Licensing); the Bank of Israel Law, 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 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

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

Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner. The 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.

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

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

## Additional Regulation

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

2. A private bill was submitted to Knesset in 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. **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.L.4 to the financial statements.

8. **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 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 the legislative amendments has no material impact on these financial statements.

## Legal Proceedings

In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Isracard, 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 Isracard 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.

## Contingent Liabilities

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

## Objectives and Business Strategy

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

1. Maintaining the level of revenues and profitability.

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

3. Continued implementation of the club strategy.

4. Maintaining brand image.

5. Extending collaborations with merchants.

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

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

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

## 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.

## 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.
- Survey performed of gaps between Basel II requirements and the existing situation at the Company; action plan in this area prepared.
- Operational risk management and control system updated routinely.
- Business continuity plan and emergency preparedness plan established.
- All emergency procedures at the Company updated.

## Market and Liquidity Risks

### 1. Market Risk Exposure and Management

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

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

The Company's market risk management policy for 2009 was adjusted to the requirements of 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 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 Division at the Company.

In order to implement the requirements of its market risk management policy, Isracard (which, as noted above, administers and operates the activity of the Company) 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 changes in currency exchange rates (US dollar and euro) and in rates of the consumer price index on the difference between the value of assets and liabilities.

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

**B. Liquidity risk**

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

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

This policy is attained by conducting ongoing monitoring of the liquidity position of the Company. Isracard (which, as noted above, administers and operates the activity of 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 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.

### C. Exposure to prices of securities

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

### D. Derivative financial instruments

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

### 2. Policy Execution and Control of Market Risk Management

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

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

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

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

## Credit Control Unit

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

## 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 the company; to establish a system of risk management and control; and to expand disclosure requirements, in order to help bring regulatory capital closer to the economic capital necessary in order to absorb losses and ensure the robustness and resilience of the corporation.

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

The Basel II recommendations consist of three pillars:

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

* Pillar III: Disclosure requirements under the Basel II directives.

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

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

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

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

## Discussion of Risk Factors

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

| Risk factor | Brief description | Effect |
|---|---|---|
| 1. Overall effect of credit risks | Risk arising from borrowers' failure to fulfill their obligations to the Company. 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 sectorial concentration | Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector. | 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. | Dependence on Isracard | The Company is materially dependent on Isracard, which manages and operates credit-card issuance and acquiring activity on behalf of the Company, in accordance with the arrangement between the parties. The Company does not possess systems for the operation of credit-card issuance and acquiring activities. Termination of the contractual engagement with Isracard would require the Company to contract with another entity for the provision of services, or to perform material monetary investments in the acquisition and development of operational systems. | Major |

| Risk factor | | Brief description | Effect |
|---|---|---|---|
| 10. | Condition of the Israeli and global economy | A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results. | Medium |
| 11. | Political / security risk | Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, 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 |
| 12. | Cessation of operation of a bank in Israel | The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank. | Major |
| 13. | Cessation of operation of an international credit-card organization | The cessation of operation of the MasterCard organization may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of the Company (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results. | Major |
| 14. | 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 |

| Risk factor | | Brief description | Effect |
|---|---|---|---|
| 15. | 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, 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 Isracard, Aminit, and Poalim Express.

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

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

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

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

Member of the Board of Trustees of Ben-Gurion University, the Van Leer Jerusalem Institute, and the Public Council of the Drug Fund established by the Israel Corp. Ltd. Group.

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

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

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

**Avi Idelson**

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

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

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

Also a member of the board of directors of Isracard and a member of the IT Committee of the board of directors of Isracard, and a member of the board of directors of the following companies: Isracard, 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 of Bank Hapoalim B.M. and Head of Retail Banking at the Bank as of October 1, 2009.

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

Also serves as a director at Isracard.

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

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

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

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

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

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

Director with accounting and financial expertise.

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

**Yair Ben-David**

Attorney, owner of a legal practice.

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

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

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

Also a member of the board of directors of the following companies: Timna Copper Mines Ltd., Haagam Haneelam Timna Ltd., and Dan Shiraz Investments Ltd.

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., Isracard, 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: 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.

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| **Ron Weksler** | Head of Southern Region at Bank Hapoalim B.M.<br>Member of the Board of Directors of the Company as of March 1, 2004.<br>Member of the Audit Committee of Board of Directors of the Company.<br>Also serves as a member of the board of directors and of the audit committee of the board of directors at Isracard.<br>As of 2002, served in various positions at Bank Hapoalim B.M.<br>In the last five years or during part of that period, served as a director at MyBills Ltd.; however, he no longer serves there.<br>Doctor of philosophy and Ph.D. in Public Administration, Bar Ilan University.<br>M.B.A., Bar Ilan University.<br>L.L.B., Tel Aviv University.<br>B.A. in Accounting, Tel Aviv University.<br>Director with accounting and financial expertise.<br>To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation. |
| **Eldad Kahana** | Attorney, Head of Legal Counsel Division, Bank Hapoalim B.M.<br>Member of the Board of Directors of the Company as of August 8, 1979.<br>Member of the Audit Committee of the Board of Directors of the Company.<br>Also a member of the board of directors and audit committees of Isracard and Aminit.<br>L.L.B., Hebrew University of Jerusalem.<br>To the best of the knowledge of the Company and of Mr. E. Kahana, he is not a family member of another interested party of the corporation. |
| **Shmuel Lachman** | Member of the Board of Directors of the Company as of May 21, 2009. |

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

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

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Isracard, 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 committee and chairman of the IT committee of the board of directors of Isracard, and a member of the audit committee of the board of directors of 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.

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

Member of the Computerization Committee of the TASE.

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

In the last five years or during part of that period, served as a member of the board of directors of the following companies: 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: Isracard, 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 CFO and CFO at Bezeq the Israel Telecommunications Corp. Ltd.; CFO and Corporate VP at NICE Systems Ltd.; however, he no longer serves at these companies.

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

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

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

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: Isracard; 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 Isracard.

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 of the following companies: Isracard, Aminit, and Poalim Express.

Member and chairman of the audit committee of the board of directors at the following companies: Isracard, 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.

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|---|---|
| **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 a director on the Board of Directors of the Company 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 25, 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.<br><br>Also serves as of February 1, 2009 as CEO of the following credit-card companies: Isracard, Aminit, and Poalim Express.<br><br>Chairman of the board of directors of the following companies: Isracard (Nechasim) 1994 Ltd. and Isracard Mimun Ltd.<br><br>Member of the board of directors of Amir Marketing and Investments in Agriculture Ltd.<br><br>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.<br><br>M.B.A., Financing Section, Tel Aviv University.<br><br>B.A. in Economics, studies in International Relations, Tel Aviv University.<br><br>AMP (Advanced Management Program), Harvard University.<br><br>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.<br><br>Head of Trade and Sales.<br><br>B.A. in Economics and Political Science, Bar Ilan University.<br><br>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.<br><br>Head of Information Technology and Operations.<br><br>In the last five years or during part of that period, commanded the IDF Manpower Computing Center and held the rank of Colonel.<br><br>M.A. in Public Administration, Bar Ilan University.<br><br>B.A. in Computer Science, Economics, and Criminology, Bar Ilan University.<br><br>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 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.

## 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 banks 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 | 54 | - |
| 2. | Structure of regulatory capital | 54 | 55 |
| 3. | Capital adequacy | 55 | 56 |
| 4. | Credit risk – general disclosure requirements | 56 | - |
| 5. | Credit risk | - | 61 |
| 6. | Credit risk – disclosure in portfolios treated using IRB approaches (not relevant to the Company) | - | - |
| 7. | Credit risk mitigation (CRM) (not relevant to the Company) | - | - |
| 8. | General disclosure regarding exposures related to counterparty credit risk (not relevant to the Company) | - | - |
| 9. | Securitization (not relevant to the Company) | - | - |
| 10. | Disclosure by companies using the standard approach | 62 | 62 |
| 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 | 66 | 66 |
| 13. | Disclosure regarding positions in shares in the banking book (not relevant to the Company) | - | - |
| 14. | Interest-rate risk in the banking book (not relevant to the Company) | - | - |

## 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. Company Data

| | Dec. 31, 2009 | | Dec. 31, 2008 |
|---|---|---|---|
| | NIS millions | | |
| **1. Capital for the calculation of the capital ratio** | **Basel II** | **Basel I** | **Basel I** |
| Tier 1 capital | 183 | 183 | 182 |
| **Total overall capital** | **183** | **183** | **182** |

| **2. Weighted balances of risk-adjusted assets** | Dec. 31, 2009 | | | | Dec. 31, 2008 | |
|---|---|---|---|---|---|---|
| | NIS millions | | | | | |
| | **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 | 91 | 8 | 181 | 16 | 181 | 16 |
| Market risks – foreign currency exchange rate risk | - | - | - | - | - | - |
| Operational risk | 15 | 1 | - | - | - | - |
| **Total weighted balances of risk-adjusted assets** | **106** | **9** | **181** | **16** | **181** | **16** |

| 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 | 173.1 | 101.1 | 100.6 |
| Ratio of overall capital to risk-adjusted assets | 173.1 | 101.1 | 100.6 |
| Minimum overall capital ratio required by the Supervisor of Banks | 9 | 9 | 9 |

The ratio of capital to risk-adjusted assets in accordance with the Basel II directives was 173.1%, as compared to 101.1% under Proper Conduct of Banking Business Directive No. 311 ("Minimum Capital Ratio") and 341 ("Capital Allocation in Respect of Exposure to Market Risks"). The increase resulted from a decrease in the amount of approximately NIS 75 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 183 million, similar to the capital base under Proper Conduct of Banking Business Directive 311.

The weighted total of risk-adjusted assets as of December 31, 2009 under the Basel II directives amounted to approximately NIS 106 million, versus NIS 181 million under Proper Conduct of Banking Business Directive 311 ("Minimum Capital Ratio") and 341 ("Capital Allocation in Respect of Exposure to Market Risks"), a decrease of approximately NIS 75 million.

The decrease in the balance of risk-weighted assets resulted from a decrease in risk-weighted assets in respect of credit risk in the amount of approximately NIS 90 million. The decrease in the balance of weighted assets attributed to credit risk resulted from a lower rate of weighting of the balance of a banking corporation (credit-card company), pursuant to the Basel II directives.

## Application

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

## 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 consists of shareholders' equity.

## Limits on the Capital Mix

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

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

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

| | In NIS millions |
|---|---|
| Tier I capital | 1 |
| Paid-up common share capital | 182 |
| Retained earnings | |
| **Total core capital** | |
| **Total tier I capital** | **183** |
| Tier II capital | *- |
| **Overall eligible capital** | **183** |

* 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:** | | |
| Banking corporations | 91 | 8 |
| Other assets | - | - |
| **Total credit risk** | **91** | **8** |
| Operational risk | 15 | 1 |
| **Total weighted balances of risk-adjusted assets** | **106** | **9** |

| | |
|---|---|
| **Overall capital ratio and tier I capital ratio** | |
| Capital for the calculation of the capital ratio | 183 |
| Ratio of tier I capital to risk-adjusted assets | 173.1% |
| Ratio of overall capital to risk-adjusted assets | 173.1% |
| 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 the Company 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 specific provisions for doubtful debts.

### 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.

### 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 to private individuals, loans to merchants, advances, and early payments to merchants.

**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) |
|---|---|---|---|
| **Bank** | Balance sheet | Credit | 181 |
| **Other assets** | Balance sheet | Other assets | 2 |

**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 |
| **Bank** | Balance sheet | Credit | 136 |
| **Other assets** | Balance sheet | Other assets | 47 |

* Average exposure calculated on a quarterly basis.

## 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 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 | 2 | 2 |
| 50% | Unrated | 181 | 181 |

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

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

### Hedging Interest-Rate Exposures

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

The Company is considering the use of IRS (interest rate swap) instruments to hedge interest-rate positions to which it is exposed. If performed, purchases of IRS contracts will be aimed at reducing the risk that unexpected changes in interest rates may damage the fair value of the assets and liabilities of the Company, and consequently its financial condition.

### Hedging Foreign Currency Exposures

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day.

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

## Disclosure by Companies Using the Standard Approach

### General

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

### Strategy and Processes

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

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

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

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

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

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

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

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

- Routine measurement and control of the market and liquidity risk indices of the Company.

- Preparation of reports on interest-rate risks.

- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

**Chief Risk Officer**

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

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

The Chief Risk Officer assists Management in the control of the market risk strategy approved by the Board of Directors by examining compliance with 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

Weighted balances of risk-adjusted assets

| | Capital requirement |
|---|---|
| | In NIS millions |
| Market risks – Foreign currency exchange rate risk | - |

## 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 | 1 |

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

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

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

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

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

Tel Aviv, February 25, 2010

Europay (Eurocard) Israel Ltd.

# Management's Review

For the Year Ended December 31, 2009

## Table of Contents

## Balance Sheet – Multi-Period Data

**Addendum 1**

Reported amounts

In NIS millions

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

* Amount lower than NIS 0.5 million.

## Statement of Profit and Loss – Multi-Period Data

**Addendum 2**

Reported amounts

In NIS millions

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

* Amount lower than NIS 0.5 million.

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

**Addendum 3**

Reported amounts

In NIS millions

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

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

**Addendum 3 (cont.)**

Reported amounts

In NIS millions

| | 2008 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| **Assets** | | | | |
| Other assets | 182 | 182 | 180 | 179 |
| **Total assets** | **182** | **182** | **180** | **179** |
| **Shareholders' equity** | | | | |
| Shareholders' equity | 182 | 182 | 180 | 179 |
| **Total liabilities and capital** | **182** | **182** | **180** | **179** |

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

**Addendum 4**

Reported amounts

In NIS millions

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

* Amount lower than NIS 0.5 million.

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

**Addendum 4 (cont.)**

Reported amounts

In NIS millions

| | 2008 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| Net operating income (expenses), under the agreement with Isracard Ltd. | (1) | (1) | *- | *- |
| Profit from financing activity | 1 | 4 | 2 | 1 |
| Operating profit before taxes | ***-** | **3** | **2** | **1** |
| Provision for taxes on operating profit | *- | 1 | 1 | *- |
| Net operating profit | *- | 2 | 1 | 1 |
| Profit from extraordinary transactions after taxes | - | - | - | - |
| **Net profit** | *- | **2** | **1** | **1** |
| **Net profit per common share (in NIS)** | | | | |
| Net operating profit | - | 5 | 2 | 2 |
| Profit from extraordinary transactions after taxes | - | - | - | - |
| **Total** | **-** | **5** | **2** | **2** |

* Amount lower than NIS 0.5 million.

## Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Ltd. (hereinafter: the "**Company**") for 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

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

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

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

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

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

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

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

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

**Dov Kotler**

Tel Aviv, February 25, 2010

Chief Executive Officer

## Certification

I, Sigal Barmac, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Ltd. (hereinafter: the "**Company**") for 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

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

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

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

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

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

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

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

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

**Sigal Barmac**

Tel Aviv, February 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 Europay (Eurocard) Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company with regard to the adequate preparation and presentation of the financial statements, which are published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if 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 87. 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

Europay (Eurocard) Israel Ltd.

# Financial Statements

For the year ended December 31, 2009

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Somekh Chaikin

## Auditors' Report to the Shareholders of Europay (Eurocard) Israel Ltd. – Internal Control of Financial Reporting

We have audited the internal control over financial reporting of Europay (Eurocard) Israel Ltd. (hereinafter – "the Company") as of December 31, 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 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 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**
Certified Public Accountants (ISR)

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

Tel Aviv, February 25, 2010

Somekh Chaikin

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

We have audited the balance sheets of Europay (Eurocard) Israel 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 overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008 and the results of operations, changes in shareholders' equity, and cash flows of the Company for each of the three years in the period ended on December 31, 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.

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**
Certified Public Accountants (Isr.)

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

Tel Aviv, February 25, 2010

## Balance Sheets

Reported amounts

In NIS millions

| | | December 31 | |
|---|---|---|---|
| | Note | 2009 | 2008 |
| **Assets** | | | |
| Other assets | 3 | 183 | 182 |
| **Total assets** | | **183** | **182** |
| | | | |
| **Liabilities** | | | |
| Contingent liabilities and special agreements | 5 | | |
| Shareholders' equity | 4 | 183 | 182 |
| **Total liabilities and capital** | | **183** | **182** |

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

| **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

## Statements of Profit and Loss

Reported amounts

In NIS millions

| | Note | For the year ended December 31 | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| Net operating income (expenses), under the agreement with Isracard Ltd. | 6 | (2) | (2) | *- |
| Profit from financing activity | | 4 | 8 | 11 |
| Operating profit before taxes | | **2** | **6** | **11** |
| Provision for taxes on operating profit | 8 | 1 | 2 | 1 |
| **Net operating profit** | | **1** | **4** | **10** |
| Profit from extraordinary transactions after taxes | 9 | - | - | 99 |
| **Net profit** | | **1** | **4** | **109** |
| **Net profit per common share (in NIS)** | | | | |
| Net operating profit | | 2 | 9 | 24 |
| Profit from extraordinary transactions after taxes | | - | - | 235 |
| **Total** | | **2** | **9** | **259** |
| Number of common shares used in calculation | | 427,699 | 427,699 | 421,012 |

* Amount lower than NIS 0.5 million.

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

## Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

| | Share capital | Premium on shares | Total capital | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|
| Balance as of January 1, 2007 | 1 | - | 1 | 238 | 239 |
| Net profit in accounting year | - | - | - | 109 | 109 |
| Benefit due to share allocation | *- | - | *- | - | *- |
| Dividend paid | - | - | - | (170) | (170) |
| Balance as of December 31, 2007 | 1 | *- | 1 | 177 | 178 |
| Net profit in accounting year | - | - | - | 4 | 4 |
| Balance as of December 31, 2008 | 1 | *- | 1 | 181 | 182 |
| Net profit in accounting year | - | - | - | 1 | 1 |
| **Balance as of December 31, 2009** | **1** | *- | **1** | **182** | **183** |

* Amount lower than NIS 0.5 million.

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

## Statement of Cash Flows

Reported amounts

In NIS millions

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Cash flows from operating activity** | | | |
| Profit (loss) for the period | 1 | 4 | 109 |
| **Adjustments required to present operating cash flows:** | | | |
| (Increase) decrease in debtors and debit balances | (1) | 35 | 34 |
| Increase (decrease) in creditors and credit balances | - | (39) | 27 |
| **Net cash from operating activity** | **-** | **-** | **170** |
| | | | |
| **Cash flows from activity in liabilities and capital** | | | |
| Dividend paid to shareholders | - | - | (170) |
| **Net cash from activity in liabilities and capital** | | | |
| Increase (decrease) in cash and cash equivalents | - | - | - |
| Balance of cash and cash equivalents at the beginning of the period | - | - | - |
| Balance of cash and cash equivalents at end of year | - | - | - |

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

## Note 1 – General

A. Europay (Eurocard) Israel Ltd. (the "**Company**") was established and incorporated in Israel in 1972 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), which was the controlling shareholder of the Company until July 2009. In July 2009, Isracard purchased the full holdings of Bank Hapoalim and of a subsidiary under its ownership in the Company (for further details, see Note 11).

The Company is an auxiliary corporation under the Banking Law (Licensing), 5741-1981.

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

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

## Note 2 – Reporting Rules and Significant Accounting Policies

### A. Definitions

In these financial statements:

1. The Company – Europay (Eurocard) Israel Ltd.
2. The Parent Company – Isracard Ltd.
3. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
4. Interested parties – As defined in Paragraph 1 of the definition of an "interested party of a corporation" in Section 1 of the Securities Law, 5728-1968.
5. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 5756-1996.
6. CPI – The consumer price index published by the Central Bureau of Statistics.
7. USD – United States dollar.
8. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.

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

### A. Definitions (cont.)

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

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

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

12. 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. The adjusted amounts appearing in the financial statements for December 31, 2003 were used as a starting point for nominal financial reporting as of January 1, 2004. Until December 31, 2003, the Company’s financial statements were prepared based on historical cost adjusted for changes in the general purchasing power of Israeli currency (Note 9 includes information based on nominal historical data for tax purposes).

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.

### C. Operating Currency and Presentation Currency

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

### D. Reporting Principles

1. Balance sheets

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

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

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

2. Statements of profit and loss

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

b. Other components of the statement of profit and loss are presented in nominal values.

### 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) |

## 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. 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.

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

### H. Earnings Per Share

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

### I. Segmental Reporting

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

### J. Statement of Cash Flows

The statement of cash flows is presented with classification into cash 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.

### K. Fair Value of Financial Instruments

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

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

### L. Disclosure of the Effect of New Accounting Standards 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.

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

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.)

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.)

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 a material adverse effect on the reported results and financial position of the Company.

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.

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

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 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.

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.

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

### 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.

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.

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

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.

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.

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

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

(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.

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

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

- In cases in which material matters are not specifically addressed by the standards or interpretations, or there are a number of alternatives for the treatment of a material matter, banking corporations 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;
- 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 for its financial statements; at this stage, it cannot estimate the expected effect of the first-time implementation thereof.

## Note 3 – Other Assets

Reported amounts

In NIS millions

| | December 31 | |
|---|---|---|
| | **2009** | **2008** |
| Surplus of advance income-tax payments over current provisions | 2 | 1 |
| Isracard Ltd. (1) | 181 | 181 |
| **Total other assets** | **183** | **182** |

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

## Note 4A – Shareholders' Equity

### A. Composition

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

| | December 31, 2008 | |
|---|---|---|
| | **Issued and paid-up** | **Registered** |
| | **In NIS** | |
| Common shares of NIS 0.0001 | 100 | 43 |

## Note 4B – Capital Adequacy According to the Directives of the Supervisor of Banks

Reported amounts

### A. Company Data

| | Dec. 31, 2009 | | Dec. 31, 2008 |
|---|---|---|---|
| | NIS millions | | |
| **1. Capital for the calculation of the capital ratio** | **Basel II (1)** | **Basel I (2)** | **Basel I (2)** |
| Tier 1 capital | 183 | 183 | 182 |
| **Total overall capital** | **183** | **183** | **182** |

| 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 | 91 | 8 | 181 | 16 | 181 | 16 |
| Market risks – foreign currency exchange rate risk | - | - | - | - | - | - |
| Operational risk | 13 | 1 | - | - | - | - |
| **Total weighted balances of risk-adjusted assets** | **104** | **9** | **181** | **16** | **181** | **16** |

| | Dec. 31, 2009 | | Dec. 31, 2008 |
|---|---|---|---|
| | Percent | | |
| **3. Ratio of capital to risk-adjusted assets** | **Basel II** | **Basel I** | **Basel I** |
| Ratio of tier 1 capital to risk-adjusted assets | 175.9 | 101.1 | 100.6 |
| Ratio of overall capital to risk-adjusted assets | 175.9 | 101.1 | 100.6 |
| Minimum overall capital ratio required by the Supervisor of Banks | 9 | 9 | 9 |

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.

## Note 5 – Contingent Liabilities and Special Agreements

### A. Antitrust Issues and Recommendations for Additional Regulation

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

   Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner; a temporary permit has been granted in response to this request, in effect until April 30, 2009. The aforesaid arrangement includes, among other things, the establishment of an interchange fee (a fee paid by acquirers of transactions in credit cards to the issuers of the credit cards).

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

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

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

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

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

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.

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

### B. Legal Proceedings

In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Isracard, along with a petition to certify the claim as a class action. The amount of the personal claim stated in the claim statement is 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 Isracard 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.

### C. Indemnification of Directors

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

### D. Agreement with Isracard (the Parent Company)

An agreement is in place between the Company and Isracard to formalize the joint activities of the parties, based on the following principles:

1. Acquiring of transactions executed in Israel using cards issued abroad

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

2. Payment for management and operation – the Company pays Isracard Ltd. for the management and operation of the arrangement, as agreed between the parties.

3. Net operating income (expenses) pursuant to the agreement with Isracard Ltd.

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

### E. Contractual Engagements with Banking Corporations

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

### F. Contractual Engagement with the Hever Club

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

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

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

Reported amounts

In NIS millions

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| **Income** | | | |
| Income in respect of merchants | 16 | 19 | 19 |
| Europay's share of royalties from Banks Under Arrangement | - | 1 | 14 |
| **Total income** | **16** | **20** | **33** |
| **Expenses** | | | |
| Operating expenses | 15 | 17 | 16 |
| Payments for operation and management of the arrangement | 3 | 5 | 17 |
| **Total expenses** | **18** | **22** | **33** |
| **Total** | **(2)** | **(2)** | *- |

* Amount lower than NIS 0.5 million.

## Note 7 – Interested and Related Parties

Reported amounts

In NIS millions

### A. Balances

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Other interested parties | | Other interested parties | |
| | Year-end balance | Highest balance during the year | Year-end balance | Highest balance during the year |
| **Isracard Ltd.** | **181** | **181** | **182** | **217** |

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

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Operating income (expenses) | (2) | (2) | *- |
| Net financing income | 4 | 8 | 11 |
| **Total** | **2** | **6** | **11** |
| | | | |
| Profit from extraordinary transactions after taxes | - | - | 72 |

(1) See Note 6.

* Amount lower than NIS 0.5 million.

## Note 8 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

### 1. Item Composition:

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Current taxes for the accounting year | 1 | 2 | 1 |

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 | 1 | 2 | 3 |
| Tax increment (saving) in respect of: | | | |
| Increment (deduction) due to inflation | - | - | (2) |
| | | | |
| **Provision for taxes on income** | **1** | **2** | **1** |

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2004, including tax assessments considered to be final under the Income Tax Ordinance.

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

### 4. Reduction in Tax Rates

On July 25, 2005, the Knesset approved the Income Tax Ordinance Amendment Law (No. 147), 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.

## Note 9 – Profit from Extraordinary Transactions after Taxes

Reported amounts

In NIS millions

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Profit from sale of shares | - | - | 138 |
| Pre-tax profit | - | - | 138 |
| Provision for taxes on profit from extraordinary transactions: | | | |
| Current taxes | - | - | 39 |
| **Profit from extraordinary transactions after taxes** | **-** | **-** | **99** |

## Note 10 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

| | December 31 | |
|---|---|---|
| | 2009 | 2008 |
| **Total assets** | **183** | **182** |
| **Total liabilities** | **-** | **-** |
| **Shareholders' equity** | **183** | **182** |
| **Nominal net profit** | **1** | **4** |

## Note 11 – Other Matters

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