Europay (Eurocard) Israel Ltd.

Annual Report

For the year ended December 31, 2008

Report as of December 31, 2008

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Europay (Eurocard) Israel Ltd.

Board of Directors' Report

For the Year Ended December 31, 2008

Board of Directors' Report on the Financial Statements as of December 31, 2008

At the meeting of the Board of Directors held on March 12, 2009, it was resolved to approve and publish the audited financial statements of Europay (Eurocard) Israel Ltd. ("the Company" or "Europay") for the year 2008.

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 is the controlling shareholder of the Company.

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., a sister company ("**Isracard**"), issues credit cards that combine the Isracard and MasterCard brands ("**MasterCard cards**"). 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, as detailed below, Isracard manages and operates issuance and acquiring activities of the aforesaid credit cards for the Company.

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

In September 2008, Ms. Irit Izakson was appointed Chairperson of the Board of Directors of the Company, replacing Mr. Dan Dankner in this office.

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. As of the aforesaid date, Mr. Krupsky serves as Deputy Chairperson of the Board of Directors of the Company.

Contractual engagement between the Company and Isracard – Under an agreement between the Company and Isracard, Isracard administers and operates issuance and acquiring activity in MasterCard cards on behalf of the Company ("**the Arrangement**"). Among other matters, the Arrangement includes provisions regarding the operation of acquiring of transactions executed in

Israel using cards issued abroad, according to which transactions executed in Israel in Israeli or foreign currency and paid to the merchant in Israeli currency are acquired by Isracard, while transactions executed in Israel in foreign currency and paid to the merchant in foreign currency are acquired by the Company. The Arrangement also encompasses the payments made by the Company to Isracard for the management and operation of the Arrangement, as agreed between them.

Preparation to acquire shares of Europay – As of the date of this report, the Company is held at a rate of 98.2% by Bank Hapoalim and 1.8% by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). To the best of the knowledge of the Company, Isracard is preparing for a possible acquisition from Bank Hapoalim of its entire stake in the Company. This acquisition has been approved by most of the relevant organs.

Investments in the Company's capital and transactions in its shares – In return for the extension of the term of the existing agreements between the Company and Isracard, on one hand, and Mizrahi Bank, on the other hand, the Company and Isracard allocated ordinary shares to Mizrahi Bank in November 2007 granting it a stake of 1.8% of the ordinary shares of each of these companies. For further details regarding the existing agreements between the Company and Isracard and Mizrahi Bank, see the description in the section "The Company's Activity through Banks."

In March 2007, a memorandum of understanding was signed between Bank Hapoalim and The Phoenix Holdings Ltd. ("**The Phoenix**"), under which The Phoenix would acquire from Bank Hapoalim 25% of the total issued share capital of the Company and of Isracard. After it became apparent to Bank Hapoalim that the transaction, as signed, was unfeasible, due to causes including the time elapsed since the memorandum of understanding was signed, difficulties in implementation of the suspending conditions, and the reservations of the Antitrust Commissioner regarding the structure of the transaction, Bank Hapoalim addressed a request to The Phoenix to cancel the memorandum of understanding, and The Phoenix decided to accede to this request. A document canceling the memorandum of understanding was signed by the parties in June 2008.

Dividend distribution – In December 2007, the Company distributed dividends to its shareholders in a total amount of approximately NIS 170 million. This distribution did not require court approvals.

Dividend distribution by the Company is subject to the provisions of the law, including (without exclusions) limits arising from Proper Conduct of Banking Business No. 311, according to which the capital of an auxiliary corporation incorporated in Israel and controlled by a banking corporation shall not be less than 9% of the weighted amount of risk-adjusted assets in its balance-sheet assets and in off-balance-sheet items, and limits arising from guidelines under the Basel II treaty concerning capital adequacy ratios. In addition, pursuant to the Banking Order, 1941 ("**the Banking Order**"), the Company is subject to supervision and auditing by the Supervisor of Banks.

Profit and Profitability

The Company's net profit totaled NIS 4 million, compared with NIS 109 million in 2007, a decrease of 96%.

The decrease resulted from the fact that the previous year's profit included profit from extraordinary transactions in the amount of NIS 99 million after tax in respect of the sale of shares of MasterCard Incorporated (of which, NIS 72 million after tax are in respect of the sale of the aforesaid shares to Isracard).

Net return of pretax operating profit on equity reached 3.3%, compared with 4.7% in 2007.

Net return on equity reached 2.2%, compared with 47.1% in 2007.

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2008 totaled NIS 182 million, compared with NIS 217 million at the end of 2007.

Shareholders' equity totaled NIS 182 million on December 31, 2008, compared with NIS 178 million at the end of 2007. The increase resulted from the Company's net profit, in the amount of NIS 4 million.

The ratio of shareholders' equity to the balance sheet reached 100% on December 31, 2008, compared with 82% on December 31, 2007.

The ratio of capital to risk-adjusted assets reached 100.6% on December 31, 2008, compared with 76.1% on December 31, 2007. The minimum capital ratio required by the Bank of Israel is 9%.

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

Economic Activity

Economic indicators began to show a slowdown in growth in the second half of 2008, which worsened in the fourth quarter, to the point where activity contracted significantly. The decline in economic activity is apparent in all sectors of the economy, including in industrial production, trade and service sector revenues, and the composite index. The damage to domestic economic activity occurred at some delay relative to most economies worldwide; this lag is attributable to the high level of financial robustness of the Israeli economy. The severity of the damage to the Israeli economy has also been moderate so far, in global terms, although the recession has intensified in early 2009, and it is clearly felt in the job market as well. The crisis in Israel is the result of the global crisis, and economic policy-makers in Israel therefore have a limited effect on it. Estimates indicate that it will be difficult for the local economy to show positive growth as long as the global economy is in recession. However, the intensity of the recession is likely to be lower in Israel in comparison to the developed countries for two reasons: the absence of a real-estate "bubble," and the high rate of savings in the private sector in recent years, which should mitigate the damage to private consumption. Declines in private consumption have a direct impact on the volume of activity in the Company's credit cards; growth rates in the volume of this activity may decrease, leading to damage to the Company's revenue growth.

The collapse of the investment bank Lehman Brothers in September 2008 was a breaking point for the global financial markets, marking a considerable rise in uncertainty. Market volatility increased, risk spreads rose, and share prices in the financial sector dropped sharply. The increase in perceived risk and the erosion of banks' capital paralyzed the credit market. A return to normal functioning of the financial sector is currently the primary objective of central banks and governments worldwide. The financial markets in Israel reacted similarly to global markets – prices of shares and corporate bonds fell sharply. The non-bank credit market was one of the chief casualties, as the global recession and high leverage impaired businesses' solvency, particularly in companies in the real-estate industry with extensive activity abroad. Economic policies worked on several levels to reduce the damage to economic activity: expansive monetary policy; continued foreign-currency purchases by the central bank; an attempt to ease the credit crunch by establishing funds in collaboration with the private sector to refinance credit and grant new credit to companies; and planned guarantees to banks for capital raising. The sharp expected increase in the budget deficit in 2009 narrows the government's options to provide incentives to encourage growth.

Developments in the Global Economy

The global economy experienced severe turmoil over the last year, with the financial sector at the epicenter. The bursting of the real-estate bubble in the United States led to the exposure of immense losses in the global financial system in general and in the American system in particular. The value of financial assets, including asset-backed products and credit derivatives, dropped sharply, eroding the capital of the financial sector. The crisis escalated as of September 2008, with the collapse of the investment bank Lehman Brothers and the nationalization of mortgage agencies Fannie Mae and Freddie Mac and insurance giant AIG. As of the end of 2008, most of the developed countries are in recession, while growth in the developing countries has slowed significantly. The International Monetary Fund estimates that GDP of the developed countries will contract by approximately 2% in 2009, as global GDP grows by just 0.5%, the lowest rate since World War II. Economic policies globally are focused on support for the financial sector and incentives to encourage economic activity. Governments have injected large amounts of capital into major banks and financial institutions in order to maintain their stability. Still, normal activity has not resumed; credit-granting is paralyzed and risk premiums in the markets remain very high. The American government is buying "toxic assets" from the financial sector; meanwhile, an unprecedented fiscal incentive plan is on the agenda. Interest rates of central banks worldwide have reached very low levels, at 0.0%-0.25% in the United States, 2.0% in Europe, and 1.5% in England, as of January 2009. Budget deficits have grown, especially notably in the United States, which has applied the most aggressive policy.

The severe crisis and the anticipated recession led to a sharp drop in prices of commodities, especially oil, which fell to USD 45 per barrel in late December 2008, from USD 145 per barrel in July 2008. As a result, inflation expectations decreased in most countries, to the point of moving into deflation.

Inflation and Exchange Rates

The consumer price index increased by a total of 3.8% in 2008, above the upper limit of the target range. The CPI took a sharp turn during the year, rising by 4.4% in the first nine months but falling by 0.6% in the last quarter. A sharp decrease in energy and food prices caused the downturn in prices in the fourth quarter. The housing item rose sharply, by 12.1%, over the year. Concerns over high inflation early in the year gradually dissipated as commodity prices fell, turning to deflation worries by the end of the year. A similar picture can now be found in most of the developed countries.

The shekel exchange rate also showed very high volatility during 2008. The shekel exchange rate against the dollar started the year at 3.846, reached 3.233 by May and ended the year at 3.802. The Bank of Israel began to purchase foreign currency in March 2008, at a rate of USD 25 million per day, stepping up the pace to USD 100 million daily in July 2008. From the start of this intervention to the end of December 2008, the Bank of Israel bought USD 12 billion. At the end of November 2008, the Bank of Israel announced that it would continue to purchase foreign currency at a rate of USD 100 million per day until reserves reached USD 40-44 billion. In contrast to the trend in many emerging economies, where currencies weakened greatly this year due to the global crisis, the shekel demonstrated great strength, stemming from the surplus in the current account of the balance of payments and local investors' perception of the Israeli economy as safe relative to other countries.

Fiscal and Monetary Policy

The slowdown in economic growth in the second half of the year was particularly pronounced in state tax revenues, which fell at a real rate of 4.6% for the year, excluding legislative changes. The sharp decline in tax revenues raised the deficit to 2.1% of GDP, versus the target of 1.6%. Based on the planned expenditures for 2009 and the current downward trend of state tax revenues, it appears that the deficit in 2009 is likely to reach 5% of GDP or more. Large budget deficits are characteristic of many developed countries during the current period, due both to a decline in revenues and to expansive policies and support for the financial sector.

Monetary policy underwent many upheavals over the year, due to the significantly above-target inflation during the year alongside the signs of a slowdown in economic growth. During the fourth quarter, the interest rate was lowered from 4.25% in September to 2.50% in December. Interest-rate cuts continued in the first three months of 2009, to a low of 0.75% in March 2009. The sharp downturn in inflation allows for a highly expansive monetary policy, as in most of the world during this period. The interest-rate cuts may have a negative effect on the Company's financing income.

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) Isracard and the Company, which issue and acquire Isracard and MasterCard credit cards, respectively; (2) Poalim Express, Ltd., a sister company ("**Poalim Express**"), which issues and acquires American Express credit cards; (3) Aminit Ltd., a sister company ("**Aminit**"), which issues and acquires Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and acquires Diners credit cards.

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

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

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

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

Description of the Company's Business

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 (the parent company), Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**").

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

See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under an international license; (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) quality of customer service; (5) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (6) a technological level allowing response to changes and the development of new products; (7) a system of risk management and credit controls; (8) the ability to recruit and retain customers through a supporting marketing system; (9) agreements to establish customer clubs; (10) operational efficiency and preservation of size advantage; and (11) high-quality, experienced human capital.

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; and (4) the structure of the credit-card industry in Israel, which has a high penetration rate.

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

Contractual Engagements with Banking Corporations

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

Contractual engagement with Bank Hapoalim – In February 2008, the Company and Isracard entered into a new agreement with Bank Hapoalim with regard to the issuance of cards, which replaces the previous contractual engagements between the parties on this matter (the "**Bank Hapoalim Agreement**"). The term of the Bank Hapoalim Agreement is fifteen years from the signing date, to be extended automatically for additional periods of five years each unless notice of non-extension is given in accordance to its terms. The inception of the Bank Hapoalim Agreement was subject to the receipt of the relevant approvals, including approval by the authorized organs of the Company, Isracard, and Bank Hapoalim. Under the Bank Hapoalim Agreement, Bank Hapoalim is entitled, among other things, to receive various payments from the Company and from Isracard, as specified in the agreement. The Bank Hapoalim Agreement also regularizes various matters related to cards, including the manner of issuance and operation, liability for damages, arrangements concerning new products and services, marketing, and arrangements relevant as long as the Company is a subsidiary of Bank Hapoalim.

The Bank Hapoalim Agreement was approved by the authorized organs of the aforesaid companies, and took effect in December 2008, pursuant and subject to its provisions.

Contractual engagement with Mizrahi Bank – In November 2007, a memorandum of principles was signed between the Company and Isracard, on one hand, and Mizrahi Bank, on the other hand, which stipulates, among other things, that Mizrahi Bank will continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years, in consideration for an allocation of ordinary shares at a rate of 1.8% of the ordinary issued share capital of each of the Company and Isracard. The value of the benefit inherent in the aforesaid allocation of shares of the Company and of Isracard to Mizrahi Bank amounts to approximately NIS 46 million. It was further agreed to conduct negotiations in order to reach a new agreement between the Company and Isracard, on one hand, and Mizrahi Bank, on the other hand, to also address the issuance of branded credit cards for Mizrahi Bank and establish arrangements for operation and the provision of services. As the negotiations regarding the signing of the new agreement did not result in a binding agreement, the existing contractual arrangements between the parties will continue to apply.

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.

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 2008.

Marketing and Distribution

The Company's marketing and distribution activity in the Credit-Card Issuance Segment is conducted through Isracard (which 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 "Termination of Contractual Engagements with Banks."

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 May 2007, Hever Career Military Personnel and Retirees Ltd. and Hever Consumer Club Ltd. (jointly: the "**Hever Club**") issued a request for proposals to credit-card companies for the issuance and operation of non-bank credit cards and the provision of incidental services to club members as a group (“**Hever Credit Cards**”). Among other matters, the credit-card companies were asked to include a proposal regarding a payment to the Hever Club, to include part of the proceeds from the income of the credit cards.

The Company and Isracard submitted their proposal in June 2007; this proposal was chosen by the Hever Club, from among the proposals it received. In January 2009, the Company, Isracard, and Poalim Express entered into an agreement for the issuance and operation of Hever Credit Cards (the "**Hever Agreement**"). The date of the beginning of implementation of the Hever Agreement is subject to the arrangements contained therein. The term of the Hever Agreement is six years from said implementation date, and may be extended in accordance with its terms. In addition, arrangements were formulated with regard to the termination of prior contractual engagements, including the required adjustments in the relationships between the relevant parties.

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

Competition

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

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company/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 operates 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) the Company's image and brand; (5) the Company and Isracard have a long-term agreement with Bank Hapoalim for the issuance of credit cards; (6) the Company and Isracard's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; (9) a robust capital structure and positive cash flow; and (10) professional, skilled, experienced human capital.

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

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 executed transactions using credit cards with that merchant.

As of the date of the report, several credit-card companies operate in the credit-card acquiring segment in Israel: the Company, Isracard, 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 "Contractual engagement between the Company and Isracard," above).

For details with regard to regulation in this area, various directives in the area of cross-acquiring of 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) 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; (5) provision of incidental services to merchants; (6) operational efficiency and utilization of size advantage; (7) accumulated experience in the area of acquiring credit cards; (8) high-quality, experienced human capital; 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 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, 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 2008.

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 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.

Financing

The Company finances its operations through its own means and through daily short-term credit in on-call loans from Bank Hapoalim. 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 7 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. For details regarding the SOX 404 directives, see the section "Controls and Procedures."

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; 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 Ltd., Leumi Card Ltd., 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.

Following the recommendations of the Interministerial Committee for the Examination of Market Failures in the Credit Card Industry, in March 2007 a private bill (the "**Private Bill**") was submitted to Knesset, based on the committee's recommendations, and in April 2008 a legislative memorandum was issued by the Ministry of Finance (the "**Memorandum**"), both concerning amendment of the Banking Law (Licensing), 5741-1981. In June 2008, the Private Bill passed in Knesset in a preliminary reading. The Private Bill and the Memorandum are not identical in scope and details, but both or either essentially propose, among other matters, the imposition of a licensing requirement by the Governor of the Bank of Israel on any party seeking to engage in the acquiring of credit cards, and the authorization of the Supervisor of Banks to determine that an acquirer of a certain percentage of transactions in charge cards (10% in the Private Bill and 20% in the Memorandum) is a "large acquirer," and that an issuer of a certain percentage of charge cards (5% in the Private Bill and 10% in the Memorandum) is a "large issuer." Such declarations by the Supervisor will enable him, if he finds it necessary in order to ensure competition in the acquiring of charge cards or in order to protect the best interests of customers or of merchants, to instruct a large issuer to allow all those acquiring charge cards to acquire transactions in its cards, and to instruct large acquirers of charge-card transactions to acquire cards issued by others. The Memorandum also proposes considering the interchange fee as a fee under the Banking Law (Customer Service), 5741-1981, while the Private Bill proposes authorizing the Supervisor to submit a proposal to establish a maximum interchange fee to the "pricing committee" and to "the ministers," in accordance with the Supervision of Prices of Commodities and Services Law, 5756-1996. It is further proposed that the Supervisor of Banks be granted authority aimed at assisting in the implementation of the aforesaid.

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 March 2007, two private bills were submitted to the Knesset addressing the removal of ownership of credit-card companies from banks. At this stage, the Company cannot estimate whether these bills will become legislation, or, if legislated, their impact on the Company, if any.

2. **Banking Law Amendment (Customer Service) (Amendment No. 12), 5767-2007** was enacted in July 2007. The amendment states, among other matters, that the Governor of the Bank of Israel is to establish, in rules, a list of services for which a banking corporation is permitted to charge fees from its customers, and the manner of calculation of the fees that may be charged for such services. Banking corporations will be permitted to charge fees only for the services included in the fee lists. It was further established that the Governor may declare services to be subject to supervision with regard to the fees charged and to determine the amount or rate of the fees. In December 2007, the Bank of Israel issued Banking Rules (Customer Service), Fees, 5768-2007, which establish rules including those described above. In accordance with the fee schedule published, the Company ceased collection of some of the

fees it formerly charged. Accordingly, the Company prepared an amended fee schedule, pursuant to the new rules established by the Bank of Israel. The new fee schedule was published in June 2008. The Company began to operate based on this fee schedule as of July 1, 2008.

3. **Charge Card Law (Amendment No. 4), 5768-2008** ("**Charge Card Law Amendment**") – The Charge Card Law Amendment took effect in December 2008. The amendment contains several changes in relation to the directives relevant to the relationship between issuers and cardholders, including directives concerning the lack of customer liability for abuse of a stolen or lost charge card, after the card was given to another person for safekeeping; directives concerning the cessation of debiting of customers for a transaction between a customer and a merchant due to failure to supply the asset purchased by the customer, under the conditions stipulated in the amendment; directives concerning refunds to customers of payments collected due to a transaction between a customer and a merchant when a receivership order, a liquidation order, or a bankruptcy order has been issued against the merchant, under the terms and qualifications stipulated therein; and the amendment grants the customer the right to notify the issuer and demand the cessation of debiting for a transaction collected through an authorization to debit an account through the card.

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

   Public Reporting Directives on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses" (the "**Directive**"), for implementation by banking corporations and credit-card companies as of January 1, 2010, were issued in December 2007. According to the Directive, which is based on U.S. accounting standards and related regulatory directives of banking supervision agencies and the Securities and Exchange Commission, among other sources, banking corporations and credit-card companies will be required to maintain appropriate provisions to cover estimated credit losses with respect to the credit portfolio, to be assessed using one of two methods: "individual provision" and "group provision." An "individual provision for credit losses" is to be implemented 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 assessed on a group basis." For the purposes of the assessment on an individual basis, the required provision is to be measured based on the current value of 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. A "specific provision for credit losses assessed on a group basis" will be implemented for provisions for the decline in value of large groups of homogenous small debts, and in respect of debts examined individually and found to be unimpaired.

   The Directive also sets forth new disclosure, measurement, and documentation requirements concerning, among other matters, reporting of problematic debts; recognition of financing income in respect of impaired debts; accounting write-offs of debts that do not involve a legal waiver; treatment of assets seized; and the accounting treatment of the restructuring of problematic debts.

The Directive is to be implemented in the financial statements of banking corporations and credit-card companies from January 1, 2010 forward. There is no requirement to implement the Directive retroactively in financial statements for previous periods. 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 requirements to establish provisions and documentation requirements, are to be included directly in the “retained earnings” item under shareholders’ equity.

As part of the Company's preparations for the implementation of the aforesaid Directive, a project was set up and budgeted, with reference to IT and manpower resources. A steering committee headed by the Head of Finance and Administration of the Company was appointed to manage the project, as well as a working committee comprised of representatives of various units. The Company has defined milestones, divided into areas of responsibility, and is currently in the stage of defining requirements, which should be completed by the end of the first quarter of 2009. Development and implementation of the system will be completed by the end of 2009.

Implementation of the aforesaid Directive may have an effect on the reported results of the Company; however, at this stage it is not possible to estimate the strength and extent of such an effect.

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. A petition for class-action status has already been filed on this matter, and was dismissed by the Supreme Court. The new petition is based on the fact that the enactment of the Class Actions Law has changed the situation, and allows claims to be filed under new causes. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class action and with regard to the substance of the claim. At this stage, it is not possible to estimate the probability of certification of the claim as a class action, or the chances of the claim itself.

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 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.

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. A Chief Risk Controller has also been appointed at the Company.

The Company uses supporting computerized systems to manage and minimize risks.

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 preparations for Basel II 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 is in the process of reformulation and adjustment to the requirements of the Basel II directives. 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, the Company has purchased an asset and liability management system, which is currently being implemented at the Company's Finance and Administration Division.

A. Currency exposure (including CPI)

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

Management's policy is to apply controlled management of risks arising from currency exposure, within the defined limits, and routinely establish the degree of exposure in each linkage segment according to forecasts regarding developments in these markets.

During the period, the Company's disposable capital was invested in deposits with banks in shekels, and in tradable CPI-linked government bonds.

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 substantial losses.

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

This policy is attained by conducting ongoing monitoring of the liquidity position of the Company. The Company is in the final stages of the process of finding a computerized system for the administration of monitoring 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.

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.

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

The Company is in the process of making preparations to comply with the directives derived from Proper Conduct of Banking Business Directive 339 and with the Basel II directives. In any case, the Company's existing exposure to market risks is immaterial, and no significant changes are expected in the manner of management of market risks as a result of these preparations.

Credit Risks

The Company's policy is based on diversification of the credit portfolio and controlled risk management. Risk diversification is reflected in the distribution of the credit portfolio among the different customer segments and economic sectors. The policy of risk diversification among economic sectors is based on an estimate of expected developments in the various sectors.

The credit policy has been approved by the Board of Directors of the Company.

The credit-management system relies on the delegation of credit authority at different levels. In addition, rules have been established for granting credit. 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. As part of this process, credit-decision support systems for private customers have been implemented.

Credit Risk Management Unit

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

Capital Adequacy

The Company assesses its capital adequacy routinely. The assessment is performed by a summation of capital, on one hand, and sorting of assets by risk rates and market-risk evaluations, in accordance with the directives of the Supervisor of Banks, on the other hand. Capital adequacy is determined by calculating the rate of capital out of total assets, weighted by the risk rate plus the market risk. Capital adequacy is currently calculated in accordance with Directive 311, Minimum Capital Ratio, of the Proper Conduct of Banking Business Directives. Concurrently, the Company is preparing to implement the standard approach for calculating capital adequacy, based on the Basel II recommendations.

Basel II

The Basel II guidelines were issued during 2004-2006 by the Basel Committee. The objectives of these guidelines are, among other things, to define capital-adequacy requirements in relation to the level of the various risks at companies; to establish a system of risk management and control; and to expand reporting to the public on this subject.

Towards that end, the Bank of Israel issued a draft directive according to which banking corporations are 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 credit, market, and operational risk levels.
- Pillar II: Establishment of a system for management and control of the various risks, including supporting systems, risk management and control policy documents, and the internal capital adequacy assessment process (ICAAP).
- Pillar III: Reporting on the subjects covered by 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. The Company is preparing to implement the Basel II directives, according to the timeline established by the Supervisor of Banks in the circulars and implementation guidelines, including the use of software for the implementation of the three pillars. The Company has decided to adopt the standard approach to the management and control of the various risks.

Prevention of Money Laundering and Terrorism Financing

The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations) (Amendment), 5767-2006 applied the provisions of 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 to credit-card companies as auxiliary corporations.

During 2008, the Company expanded the means used in the past and purchased several computerized systems in order to improve the efficiency of the Company's activity as required by the Order.

In the area of merchants, 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 continues; this process is expected to be completed in March 2009, as required by the Order. Computerized control systems for the receipt of identifying information of merchants have also been specified and planned. In the area of charge-card issuance, computerized control systems have been specified and planned for processes involved in customer identification, verification of customer information, receipt of documents, and delivery of charge cards.

The training system has been expanded and improved.

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.

Discussion of Risk Factors

Risk factor	Brief description	Effect
Overall effect of credit risks and borrower quality	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability and quality of the various borrowers may have an adverse effect on the Company's asset value and profitability, and on the probability of collecting the credit. 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
Effect of market risks: interest rate / exchange rate risks	Present or future risk to the Company's income and capital arising from changes in interest rates and currency exposures. Such changes may cause the Company to suffer losses and/or a reduction in income.	Minor

Risk factor	Brief description	Effect
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.	Minor
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. See also "Dependence on Isracard," below.	Minor
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
Reputation risk	Damage to the Company's reputation and brands 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
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
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 and/or reduction of customers' activity volumes, 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.	Major

Risk factor	Brief description	Effect
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
Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage 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.	Major
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.	Minor
Forgery, fraud, and embezzlement	The Company's area of activity is characterized by continual attempts at forgery and fraud, including credit-card fraud, attempts to penetrate databases, abuse of credit cards, and more. See also "Dependence on Isracard," above.	Medium
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
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

Risk factor	Brief description	Effect
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
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
Termination of contractual engagements with banks	The termination of the contractual engagement or substantial reduction of activity with Bank Hapoalim and/or with some of the other Banks Under Arrangement could lead to material damage to the Company's reputation and business results.	Major

Disclosure Regarding the Internal Auditor

The Company receives internal audit services from Bank Hapoalim.

Mrs. Orit Lerer has served as Internal Auditor of the Company since March 25, 2004. Mrs. Lerer has worked at Bank Hapoalim 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, 5752-1992 (the "Internal Audit Law").

The Internal Auditor is not an interested party of the Company or its subsidiaries, and holds no other office in addition to her position as Chief Internal Auditor of Bank Hapoalim 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 Chief Internal Auditor reports 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.

The Internal Auditor is 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.

25 audit days were invested at the Company in 2008. 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 2008 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 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 Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unpredictable 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 Bank Hapoalim. 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.

A summary of internal audit activity for 2007 was submitted to the Chairman of the Board of Directors, the members of the Audit Committee, and the CEO on May 11, 2008. The summary was discussed by the Audit Committee on July 24, 2008.

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.

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 2008, 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.

14 meetings of the Board of Directors and 10 meetings of the Audit Committee were held in 2008.

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.

Members of the Board

Irit Izakson	Acting Chairperson of the Company as of September 25, 2008. Also serves as Acting Chairperson of Isracard Ltd., Aminit Ltd., and Poalim Express Ltd. 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., Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds 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: Koor Industries Ltd., Meshulem Levinstein Ltd., Eurocom Communications Ltd., and Nisko Industries Ltd. (director representing the public); 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.

Dan Dankner

Chairman of the Board of Directors of Bank Hapoalim B.M. ("Bank Hapoalim") as of June 24, 2007.

Chairman of the following Board Committees at Bank Hapoalim: the Credit Committee, the Repricing Committee, the Prospectus Committee, the Expense Control and Streamlining Committee, the Salary and Human Resources Committee, the Investment Approval Committee, the Overseas Banking and Global International Activity Committee, and the New Products Committee.

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

Acting Chairman of the Board of companies in the Poalim Capital Markets Group: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets – Investment House Ltd., and Diur B.P. Ltd.

Member of the Board of Directors of Bank Hapoalim as of November 5, 1997.

Member of the Board of Directors of Isracard Ltd. as of October 30, 2002.

Chairman of the Administrative Board of the Poalim in the Community Foundation.

Chairman of the Administrative Board of the Peretz Naftali Fund.

President of Beterem.

Also a member of the board of directors of the following companies: the Company, Aminit Ltd., Poalim Express Ltd., Bank Hapoalim (Switzerland)

Ltd., Adam Dan Ltd., Atlit Food Cooling Ltd., and Sea Gate Mariculture Ltd.

Served as Vice Chairman of the Board of Directors of Bank Hapoalim from May 30, 1999 to May 15, 2004.

Served as Acting Chairman of the Board of Directors of Bank Hapoalim from May 15, 2007 to June 24, 2007.

Served as Chairman of the Board of Isracard and of the Company from October 30, 2002 to September 25, 2008.

Served as Chairman of the Board of Aminit Ltd. from October 30, 2002 to December 30, 2008.

Served as Chairman of the Board of Poalim Express Ltd. from November 24, 2003 to December 30, 2008.

Served as Joint Chairman of the Board of Israel Salt Industries Ltd. from 1999 to 2004.

Served as chairman of the board of the following companies: Poalim Venture Services Israel Ltd. and Israel Salt Industries Ltd.; and as a director or CEO at the following companies: Israel Salt Company Ltd., Israel Salt Company (Eilat) 1976 Ltd., Dankner Investments Ltd., G.D.A.D. Atlit Development Ltd., Elran (D.D.) Holdings Ltd., Argad Water Treatment Industries Ltd., Argad Ayil Water Improvement Industries Ltd., Sheraton Moriah (Israel) Ltd., Carmel Chemicals Ltd., Hapoalim Holding U.S.A., Signature Bank, Leenoy Holdings Ltd., Elran (D.D.) Investments Ltd., Intact Real Estate and Infrastructures Ltd., Intact Holdings Ltd., Intact Investments Ltd., Danran Holdings Ltd., Salt Industries Share Holdings (1998) Ltd., Dankner (D.D.) Infrastructures Ltd., and Poalim Ventures – Fund Management Ltd.; however, he no longer serves at these companies.

B.A. in Business Administration, University of Massachusetts, Boston.

Director with accounting and financial expertise.

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

Haim Krupsky Deputy Chairman of the Board of the Company as of February 1, 2009.

Member of the Board of Directors of the Company as of July 31, 1994.

From September 1, 1994 to January 31, 2009 served as Chief Executive Officer of the following credit-card companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., and Aminit Ltd.

Served as Chairman of the Board of Poalim Express from September 23, 2001 to March 27, 2006.

Served as Chief Executive Officer of Poalim Express Ltd. from March 27, 2006 to January 31, 2009.

Also serves as Deputy Chairman of the Board at the following companies: Isracard Ltd., Aminit Ltd., and Poalim Express Ltd.

Chairman of the Board of Directors of Tzameret Mimunim Ltd.

Member of the Board of Directors of Store Alliance Com Ltd.

Member of the Board of Governors of the Tel Aviv Museum of Art.

Served as Chairman of the Board of Isracard (Nechasim) 1994 Ltd. and Isracard Mimun Ltd. until February 26, 2009.

In the last five years or during part of that period, served as a director at MasterCard Europe sprl (formerly Europay International S.A.), and as Chairman of the Southern Regional Board of Directors of MasterCard Europe sprl (formerly Europay International S.A. – Southern Regional Board of Directors).

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

L.L.B., Faculty of Law, Hebrew University of Jerusalem. Licensed attorney.

Director with accounting and financial expertise.

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

Lilach Asher-Topilsky

Member of the Board of Management and Head of the Strategic Management Center at Bank Hapoalim B.M. as of December 1, 2007.

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

Also serves as a director at Isracard Ltd.

From September 2006 to January 2007, Head of the Marketing and Strategic Planning Division in the Retail Area at Bank Hapoalim B.M.

From March 2005 to September 2006, Head of the Central Region in the Retail Area 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, Chicago, 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. Also a member of the board of directors of the following companies: Timna Copper Mines Ltd., Haagam Haneelam Timna Ltd., Dan Shiraz Investments Ltd., and Isracard 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.
Tamar Ben-David	Attorney, Gross, Kleinhendler, Hodak, Berkman, & Co. Law Offices. Member of the Board of Directors of the Company as of June 25, 2002. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of the following companies: Deutsche Securities Israel Ltd., Isracard Ltd., and Aminit Ltd. Member of the audit committees of Isracard Ltd. and Aminit Ltd.

In the last five years or during part of that period, served as a director at Blue Square Israel Ltd., Cellcom Ltd., and Investec Asset Management Ltd.; however, she no longer serves at these companies.

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

To the best of the knowledge of the Company and of Ms. T. Ben-David, she 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 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 Ltd., and Poalim Express Ltd. Member of the Advisory Council to the Bank of Israel.

Member of the Audit Committee of the Company.

Also a member of the audit committees of Isracard Ltd. and Poalim Express Ltd.

Member of the board of directors and audit committee of Aminit Ltd. as of March 12, 2009.

Served as a director at the following companies: the Haifa Art Culture and Sports Company Ltd. (ETHOS) and MTM – Scientific Industries Center Haifa Ltd.; however, he no longer serves at these companies.

M.B.A.

B.A. in Economics and Accounting.

L.L.B.

C.P.A.

Director with accounting and financial expertise.

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

Ron Weksler

Head of Southern Region at Bank Hapoalim B.M.

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

Member of the Audit Committee of the Company.

Also serves as a member of the board of directors and of the audit committee at Isracard Ltd.

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

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

Doctor of philosophy and Ph.D. in Public Administration.

M.B.A.

L.L.B.

B.A. in Accounting.

Director with accounting and financial expertise.

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

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 Ltd., Automated Banking Services Ltd., Bank Clearing Center Ltd., Poalit Ltd.

Member of the Computerization Committee of the TASE.

Until December 2003, served as a director on the board of the following companies: Mishkan – Bank Hapoalim Mortgage Bank Ltd., Hatzron Investment Company Ltd., and Henyon Allenby 115 TA Ltd.

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.

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 Ltd.; 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 as a director at: 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 Management of Bank Hapoalim B.M. as of December 14, 2007.

Head of Retail Banking at Bank Hapoalim B.M.

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

Also serves as a director at Isracard Ltd.

From March 2005 to December 2007, Hasharon Regional Manager at Bank Hapoalim.

From June 2002 to March 2005, Head of Marketing and Strategic Planning Area at 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.

Dafna Pelli

Member of the boards of directors of various companies.

Member of the Board of Directors of the Company as of August 18, 1999.

Also a member of the board of directors of the following companies: Isracard Ltd., Bank Otsar Hahayal Ltd.

Member of the Board of Governors and Chairperson of the Finance Committee of the Jerusalem College of Engineering.

Member of the Gabriel Sherover Foundation.

From September 2002 to August 2006, Chairperson of the Board of Directors of Bank Otsar Hahayal Ltd.

B.A. in Economics and International Relations, Hebrew University of Jerusalem.

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

Zion Kenan

Member of the Board of Management of Bank Hapoalim B.M. as of September 30, 2001.

Deputy CEO and Head of Corporate Banking at Bank Hapoalim B.M.

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

Also a member of the board of directors of the following companies: Isracard Ltd., Poalim Express Ltd., Bank Pozitif Credi Ve Kalkinma Bankasi Anonim Sirketi.

From January 2006 to December 2007, Deputy CEO and Head of Retail Banking at Bank Hapoalim B.M.

From September 2003 to December 2005, Head of Retail Banking at Bank Hapoalim B.M.

From September 2001 to August 2003, Head of Human Resources and Logistics at Bank Hapoalim B.M.

From February 2000 to September 2001, Head of the Retail Banking Division at Bank Hapoalim B.M.

In the last five years or during part of that period, served as a director on the board of the following companies: Bank Massad Ltd., Mishkan – Bank Hapoalim Mortgage Bank Ltd., Signature Securities Group, Poalim Asset Management (Ireland) Ltd., Poalim Asset Management (UK) Ltd., PAM Holdings Ltd.; however, he no longer serves at these companies.

M.A. in Labor Studies, Open University.

B.A. in Social Sciences, Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. Z. Kenan, 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 Ltd., Aminit Ltd., Poalim Express Ltd., UTI Logistics Israel Ltd., Exel – Multi Purpose Logistics Ltd., Overseas Commerce Ltd., Exel M.P.L. – A.V.B.A. Ltd., (I.Z.) Queenco Ltd.

Member and chairman of the audit committees of the boards of directors of Isracard Ltd., Aminit Ltd., and Poalim Express Ltd.

Chairman of the board of directors of Super Plast Ltd.

In the last five years or during part of that period, served as chairman of the board at A.M.S. Electronics Ltd.

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.

Barry Ben-Zeev	Served as a member of the Board of Directors of the Company from March 13, 2008 to September 25, 2008.
Yacov Rozen	Served as a member of the Board of Directors of the Company from August 10, 2006 to February 27, 2008.

Senior Members of Management

Dov Kotler

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

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

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

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

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

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

AMP (Advanced Management Program), Harvard University.

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

Haim Krupsky

From September 1, 1994 to January 31, 2009, CEO of the following credit-card companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd.

Deputy Chairman of the Board of Directors of Poalim Express from September 23, 2001 to March 27, 2006.

CEO of Poalim Express Ltd. from March 27, 2006, to January 31, 2009.

Deputy Chairman of the Board of Directors of the Company as of February 1, 2009.

Serves as a director on the board of the Company as of July 31, 1994.

Also serves as deputy chairman of the board at the following companies: Isracard Ltd., Aminit Ltd., and Poalim Express Ltd.

Chairman of the board of directors of Tzameret Mimunim Ltd.

Director of Store Alliance Com Ltd.

Member of the Board of Governors of the Tel Aviv Museum of Art.

Until February 26, 2009, served as chairman of the board of the following companies: Isracard (Nechasim) 1994 Ltd. and Isracard Mimun Ltd.

In the last five years or during part of that period, also served on the board of directors of MasterCard Europe sprl (formerly Europay International S.A.), and as chairman of the Southern Regional Board of Directors of MasterCard Europe sprl (formerly Europay International S.A. – Southern Regional Board of Directors).

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

L.L.B., Faculty of Law, Hebrew University of Jerusalem. Licensed attorney.

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

Eli Burg

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

Head of Trade and Sales.

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

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

Ronen Zaretsky

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

Head of Information Technology and Operations.

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

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

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

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

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

David Cohen

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

Head of Customer Relations.

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

Alberto Langa

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

Head of Security.

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 director on the board 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. (as of December 25, 2008), Life Style Customer Loyalty Club Ltd., and Life Style Financing Ltd. (as of January 14, 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.

David Doron

Member of the Management of the Company as of August 1989.

Head of Human Resources and Organization.

B.A. in Political Science and Labor Studies, Tel Aviv University.

To the best of the knowledge of the Company and of Mr. D. Doron, 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.

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.

Controls and Procedures

In November 2004, the Supervisor of Banks issued a directive concerning a declaration to be attached to quarterly and annual reports of banking corporations, to be signed by the CEO and the Chief Accountant, regarding the evaluation of controls and procedures concerning disclosure in the financial statements, starting with the financial statements for the period ended on June 30, 2005.

In July 2005, the Supervisor of Banks issued an amended version of the declaration, based on the directives of the Securities and Exchange Commission (SEC) in the US, which refers to the requirements of Section 302 of the Sarbanes-Oxley Act (SOX). The disclosure declaration refers to controls and procedures established regarding disclosure, aimed at ensuring that material information which the bank is required to disclose in its financial statements is recorded, processed, and presented fairly, and reported in accordance with the Public Reporting Directives of the Supervisor of Banks.

This directive applies to credit-card companies ("**CCCs**") starting with the financial statements for the period ended on June 30, 2007.

Section 404 of the above-mentioned law was adopted by the Supervisor of Banks in a circular dated December 2005 with regard to banking corporations. In January 2008, the Supervisor of Banks announced that CCCs would also implement the requirements of Section 404 as well as the past and future published directives of the SEC derived from Section 404.

Pursuant to this section, the Company must include a declaration in its financial statements, starting with the financial statements for December 31, 2008, regarding Management’s responsibility for the establishment and maintenance of adequate systems and procedures of internal control of financial reporting, as well as an evaluation as of the end of the fiscal year of the effectiveness of the procedures of internal control of financial reporting. At the same time, the Company’s auditors will be required to provide an opinion on the fairness of the internal controls of financial reporting at the Company, in line with the relevant standards of the PCAOB (Public Company Accounting Oversight Board).

In September 2008, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 309, which integrates the various circulars issued for the purpose of the implementation of Sections 302 and 404 of SOX.

The key points of the directive are:

Banking corporations and CCCs are required to maintain controls and procedures concerning disclosure and the internal control of financial reporting.

The management of the banking corporation or CCC must evaluate the effectiveness of the controls and procedures concerning disclosure as of the end of each quarter.

The management of the banking corporation or CCC must evaluate the corporation's internal control of financial reporting as of the end of each year.

The management of the banking corporation or CCC must evaluate any changes in the internal control of the banking corporation occurring during each quarter which have a material effect, or which may be expected to have a material effect, on the banking corporation's internal control of financial reporting.

The Company contracted with an external consulting firm in order to comply with the requirements of Section 404 of the aforesaid law on the date established, adopting the COSO (Committee of Sponsoring Organization) model for the structure of internal control of financial reporting. The Company worked to implement the directives based on milestones.

The following steps were carried out for the purpose of these preparations:

1) Planning stage – Risk assessment performed, including examination of quantitative and qualitative parameters in order to establish material accounts and processes.

2) Mapping of material processes – Detailed documentation of material processes performed, including identification of flaws in the planning and ranking of controls.

3) Work plan established for the correction of flaws discovered in the mapping stage.

4) Effectiveness of controls examined – Key controls selected and tested for effectiveness.

5) Work plan established for correction of flaws discovered in the control testing stage.

6) Declaration and report – Management evaluated all flaws discovered in the project during the fiscal year 2008, in order to determine whether the controls are effective. The CEO and the Chief Accountant signed the required declaration, in accordance with the directive of the Supervisor of Banks; the declaration is attached to these reports.

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 quarterly 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, 2008, 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.

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

Tel Aviv, March 12, 2009

Europay (Eurocard) Israel Ltd.

Management's Review

For the Year Ended December 31, 2008

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Balance Sheet – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31			
	2008	**2007**	**2006**	**2005**
Assets				
Securities	-	-	*-	*-
Other assets	182	217	251	203
Total assets	**182**	**217**	**251**	**203**
Liabilities				
Expenses payable	-	39	12	-
Total liabilities	**-**	**39**	**12**	**-**
Shareholders' equity	182	178	239	203
Total liabilities and capital	**182**	**217**	**251**	**203**

Statement of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31			
	2008	**2007**	**2006**	**2005**
Net operating (expenses) income, under the agreement with Isracard Ltd.	(2)	*-	1	(1)
Profit from financing activity	8	11	10	9
Operating profit before taxes	**6**	**11**	**11**	**8**
Provision for taxes on operating profit	2	1	3	1
Net operating profit	4	10	8	7
Profit from extraordinary transactions after taxes	-	99	28	-
Net profit	**4**	**109**	**36**	**7**
Net profit per common share (in NIS)				
Net operating profit	9	24	19	17
Profit from extraordinary transactions after taxes	-	235	67	-
Total	**9**	**259**	**86**	**17**

* 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

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

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

Addendum 3 (cont.)

Reported amounts

In NIS millions

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Securities	-	*-	*-	*-
Other assets	217	263	243	240
Total assets	**217**	**263**	**243**	**240**
Liabilities				
Expenses payable	39	5	*-	*-
Total liabilities	39	5	*-	*-
Shareholders' equity	178	258	243	240
Total liabilities and capital	**217**	**263**	**243**	**240**

* Amount lower than NIS 0.5 million.

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

Addendum 4

Reported amounts

In NIS millions

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Net operating (expenses) income, 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.

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Net operating (expenses) income, under the agreement with Isracard Ltd.	*-	*-	*-	*-
Profit from financing activity	3	3	3	2
Operating profit before taxes	**3**	**3**	**3**	**2**
Provision for taxes on operating profit	*-	*-	*-	1
Net operating profit	3	3	3	1
Profit from extraordinary transactions after taxes	87	12	-	-
Net profit	**90**	**15**	**3**	**1**
Net profit per common share (in NIS)				
Net operating profit	7	7	7	3
Profit from extraordinary transactions after taxes	206	29	-	-
Total	**213**	**36**	**7**	**3**

* 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. (the "**Company**") for 2008 (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 for the required disclosure in the Company's Report; 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 knowledge and 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.

____

Dov Kotler

Tel Aviv, March 12, 2009

Chief Executive Officer

Certification

I, Ita Lampert, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Ltd. (the "**Company**") for 2008 (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 for the required disclosure in the Company's Report; 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 knowledge and 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.

Ita Lampert

Tel Aviv, March 12, 2009

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 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, 2008, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, Management believes that as of December 31, 2008, 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, 2008 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 74. The auditors' report includes an opinion with regard to the effectiveness of the Company's internal control of financial reporting as of December 31, 2008.

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

Tel Aviv, March 12, 2009

Europay (Eurocard) Israel Ltd.

Financial Statements

For the year ended December 31, 2008

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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, 2008, 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 statement 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, 2008, 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, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973, and auditing standards applied in the audit of banking corporations as determined by guidelines of the Supervisor of Banks, the accompanying balance sheets of the Company as of December 31, 2008 and 2007 and the balance sheets as of such dates and the related statements of profit and loss, statement 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, 2008, and our report dated March 12, 2009, expressed an unqualified opinion on the said financial statements.

Somekh Chaikin
Certified Public Accountants (ISR)

Ziv Haft
Certified Public Accountants (ISR)

Tel Aviv, March 12, 2009

Somekh Chaikin

ZIV HAFT

Auditors' Report to the Shareholders of Europay (Eurocard) Israel Ltd. – Annual Financial Statements

We have audited the accompanying financial statements of Europay (Eurocard) Israel Ltd. (hereinafter: "the Company"): Balance Sheets as at December 31, 2008 and 2007 and the related statements of profit and loss, shareholders' equity and cash flows, for each of the three years, in the period which ended December 31, 2008. 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 auditing standards which application in auditing credit-card companies was enforced by 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 provide a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of operations, changes in shareholders' equity and the cash flows for each of the three years, in the period which ended December 31, 2008, in conformity with Generally Accepted Accounting Principles in Israel. Furthermore, in our opinion, these 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, 2008, 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 March 12, 2009, expressed an unqualified opinion on the maintenance of an effective internal control at the Company.

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

Tel-Aviv, March 12, 2009

Balance Sheets

Reported amounts

In NIS millions

	Note	December 31 2008	December 31 2007
Assets			
Other assets	3	182	217
Total assets		**182**	**217**
Liabilities			
Expenses payable		-	39
Total liabilities		**-**	**39**
Contingent liabilities and special agreements	5		
Shareholders' equity	4	182	178
Total liabilities and capital		**182**	**217**

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

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

Tel Aviv, March 12, 2009

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2008	2007	2006
Net operating income (expenses), under the agreement with Isracard Ltd.	6C	(2)	*-	1
Profit from financing activity		8	11	10
Operating profit before taxes		**6**	**11**	**11**
Provision for taxes on operating profit	7	2	1	3
Net operating profit		**4**	**10**	**8**
Profit from extraordinary transactions after taxes	8	-	99	28
Net profit		**4**	**109**	**36**
Net profit per common share (in NIS)				
Net operating profit		9	24	19
Profit from extraordinary transactions after taxes		-	235	67
Total		**9**	**259**	**86**
Number of common shares used in calculation		427,699	421,012	420,000

* 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, 2006	**1**	**-**	**1**	**202**	**203**
Net profit in accounting year	-	-	-	36	36
Balance as of December 31, 2006	**1**	**-**	**1**	**238**	**239**
Net profit in accounting year	-	-	-	109	109
Benefit due to share allocation(1)	*-	-	*-	-	*-
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**

(1) See Note 5.E.2.

* 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		
	2008	**2007**	**2006**
Cash flows from operating activity			
Profit for the period	4	109	36
Adjustments required to present operating cash flows:			
(Increase) decrease in debtors and debit balances	35	34	(48)
(Decrease) increase in creditors and credit balances	(39)	27	12
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			
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 1972 and is under the full control of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 5741-1981.

The Company is primarily engaged in issuing 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 the directives and guidelines of the Supervisor of Banks with regard to financial reporting by credit-card companies, opinion statements by the Institute of Certified Public Accountants in Israel, and accounting standards issued by the Israel Accounting Standards Board.

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 – Bank Hapoalim B.M.

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

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.

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 in accordance with the directives of Opinion Statements No. 23 and 34 and Opinion Statements No. 36 and 37.

9. Reported amount – Amount adjusted to the transition date (December 31, 2004), with the addition of amounts in nominal values added subsequent to the transition date, and subtracting amounts deducted subsequent to the transition date.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

10. Adjusted financial reporting – Financial reporting based on the directives of Opinion Statements No. 23, 34, 36, 37, and 50.

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

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 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.

4. Balance sheets:

   Non-monetary items are presented in reported amounts.

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

5. Statements of profit and loss:

   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.

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

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

B. Financial Statements in Reported Amounts (cont.)

6. Reports on changes in shareholders' equity:

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

C. Impairment of Assets

The Company implements Accounting Standard No. 15, "Impairment of Assets" (hereinafter: the "Standard"). The Standard stipulates procedures which the Company must implement in order to ensure that its assets in the balance sheet (to which the Standard applies) are not stated at an amount in excess of their recoverable amount, which is the higher of the net selling price and the usage value (the present value of the estimated future cash flows expected to derive from the use and realization of the asset).

The Standard applies to all assets in the balance sheet, with the exception of tax assets and monetary assets. The Standard also establishes presentation and disclosure rules for impaired assets. When the value of an asset in the balance sheet exceeds its recoverable amount, the Company recognizes a loss from impairment in the amount of the difference between the book value of the asset and its recoverable amount. A loss recognized in the aforesaid manner shall be cancelled only if changes have occurred in the estimates used to determine the recoverable amount of the asset since the date on which the last loss from impairment was recognized.

D. Securities

Securities held by the Company were classified as securities available for sale.

E. Earnings Per Share

Earnings per share were calculated in accordance with the directives of Standard No. 21 of the Israel Accounting Standards Board.

F. Segmental Reporting

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

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

G. Statement of Cash Flows

Cash flows are presented net, with the exception of changes in non-monetary items and in securities.

H. Fair Value of Financial Instruments

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

I. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to use estimates and evaluations that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities in the financial statements, and the amounts of income and expenses during the reporting period. It is hereby clarified that actual results may differ from such estimates.

J. Foreign Currency and Linkage

Assets and liabilities in foreign currency or linked to foreign currency were included at the representative exchange rates published by the Bank of Israel at the balance-sheet date.

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		
	2008	**2007**	**2006**
Consumer price index (in points)	106.4	102.5	99.13
United States dollar exchange rate (in NIS per 1 USD)	3.802	3.846	4.225

	Percent change in the year ended December 31		
	2008	**2007**	**2006**
Consumer price index	3.8	3.4	(0.1)
USD exchange rate	(1.1)	(9.0)	(8.2)

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

K. Disclosure of the Effect of New Accounting Standards in the Period Prior to Implementation

1. In December 2006, the Israel Accounting Standards Board issued Accounting Standard No. 23, “Accounting Treatment of Transactions between an Entity and its Controlling Party” (hereinafter: the "Standard"). The Standard replaces the Securities Regulations (Statement of Transactions between a Corporation and its Controlling Party in Financial Statements), 5756-1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The Standard stipulates that assets and liabilities with regard to which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction, at fair value, and the difference between the fair value and the consideration allocated in the transaction shall be allocated to shareholders’ equity. A negative difference constitutes a dividend and therefore reduces the balance of retained earnings. A positive difference constitutes an owner 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: transfer of an asset to the entity from the controlling party, or alternatively, transfer of an asset from the entity to the controlling party; the undertaking of a liability of the entity towards a third party, in full or in part, by the controlling party, indemnification of the entity by its controlling party for an expense, or a waiver by the controlling party of a debt owed to it by the entity, in full or in part; and loans given to the controlling party or received from the controlling party. The Standard further stipulates the disclosure to be made in the financial statements with regard to transactions between the entity and its controlling party during the period. The Standard will apply to transactions between an entity and its controlling party executed after January 1, 2007, and to loans given to or received from the controlling party before the inception date of this Standard, as of the inception date.

   The Supervisor of Banks recently 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 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.

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

K. Disclosure of the Effect of New Accounting Standards in the Period Prior to Implementation (cont.)

As of the date of publication of the financial statements, the Supervisor of Banks has yet to issue directives with regard to the adoption of specific rules on this subject or with regard to the first-time implementation thereof.

2. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter: the "Standard"). The Standard stipulates that entities subject to the Securities Law, 5728-1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting January 1, 2008. The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. With regard to the manner of implementation of the Standard by the aforesaid corporations, the Supervisor of Banks has announced the following:

   - The Supervisor of Banks intends to routinely set forth directives for the implementation of Israeli standards published by the Israel Accounting Standards Board based on IFRS that do not pertain to the core business of banking.

   - In the second half of 2009, the Supervisor of Banks will announce his decision regarding the implementation date of IFRS pertaining to the core business of banking, taking into consideration the results of the process of adoption of these standards in Israel, on one hand, and the progress of the convergence process between IFRS and American accounting standards, on the other hand.

   - Thus, with regard to the core business of banking, financial statements of banking corporations or credit-card companies prepared according to the directives and guidelines of the Supervisor of Banks shall continue to be prepared according to the American standards as stipulated in the Public Reporting Directives.

Note 3 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2008	**2007**
Surplus of advance income-tax payments over current provisions	1	-
Isracard Ltd. (related party)(1)	181	217
Total other assets	**182**	**217**

(1) The debt to Isracard Ltd. (a sister company) is an unlinked debt with no maturity date.

Isracard

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

A. Composition

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

	December 31, 2007	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 0.0001	100	43

B. Capital for the calculation of the capital ratio

Calculated in accordance with the Supervisor of Banks' Directives No. 311 and 341 concerning "Minimum Capital Ratio" and "Allocation of Capital in Respect of Exposure to Market Risks."

	December 31	
	2008	2007
	Balances	Balances
	NIS millions	
Primary capital	182	178

Note 4 – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

C. Weighted risk balances

		December 31, 2008					
Credit risk	**Balances**	**Weighting rate**				**Risk balance**	**Capital requirements**
		0%	**20%**	**50%**	**100%**		
Assets							
Other assets	182	1	-	-	181	181	16
Total credit risk assets	**182**	**1**	**-**	**-**	**181**	**181**	**16**
Market risk							
In respect of foreign currency	-	-	-	-	-	-	-
Total risk assets	**182**	**1**	**-**	**-**	**181**	**181**	**16**

		December 31, 2007					
Credit risk	**Balances**	**Weighting rate**				**Risk balance**	**Capital requirements**
		0%	**20%**	**50%**	**100%**		
Assets							
Other assets	217	-	-	-	217	217	20
Total credit risk assets	**217**	**-**	**-**	**-**	**217**	**217**	**20**
Market risk							
In respect of foreign currency	**-**	**-**	**-**	**-**	**-**	**17**	**2**
Total risk assets	**217**	**-**	**-**	**-**	**217**	**234**	**22**

D. Ratio of capital to risk-adjusted assets

	December 31	
	2008	**2007**
	%	**%**
Ratio of overall capital to risk-adjusted assets	100.6	76.1
Minimum overall capital ratio required by Supervisor of Banks	9.0	9.0

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.

   Following the recommendations of the Interministerial Committee for the Examination of Market Failures in the Credit-Card Industry, a private bill based on the committee's recommendations was submitted to Knesset in March 2007 (the "**Private Bill**"), and the Ministry of Finance issued a legislative memorandum in April 2008 (the "**Memorandum**"), both of which sought to amend the Banking Law (Licensing), 5741-1981. The Private Bill was passed in a preliminary reading in Knesset in June 2008. The Private Bill and the Memorandum are not identical in scope and details, but both or either essentially propose, among other matters, the imposition of a licensing requirement by the Governor of the Bank of Israel on those wishing to engage in credit-card acquiring, and the authorization of the Supervisor of Banks to determine that an acquirer of a certain percentage of transactions in charge cards (10% in the Private Bill and 20% in the Memorandum) is a "large acquirer," and that an issuer of a certain percentage of charge cards (5% in the Private Bill and 10% in the Memorandum) is a "large issuer." These declarations by the Supervisor will enable him, where he believes it is necessary in order to ensure competition in the area of acquiring charge cards or in order to protect the best interests of customers or of suppliers, to instruct a large issuer to allow all those

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

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

acquiring charge cards to acquire transactions in its cards, and to instruct large acquirers of transactions in charge cards to acquire cards issued by others. The Memorandum also proposes considering the interchange fee as a fee under the Banking Law (Customer Service), 5741-1981. The bill suggests authorizing the Supervisor to submit a proposal for the establishment of a maximum interchange fee to a "price committee" and to "ministers," pursuant to the Supervision of Prices of Products and Services Law, 5756-1996. It is further proposed that the Supervisor of Banks should be granted authority aimed at assisting in making the determinations described above.

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 March 2007, two private bills were submitted to the Knesset addressing the separation of ownership of credit-card companies from banks. At this stage, the Company cannot estimate whether these proposals will become legislation, or, if legislated, their impact on the Company, if any.

3. **Prevention of Money Laundering and Terrorism Financing**. The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations) (Amendment), 5767-2006 applied the provisions of 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 to credit-card companies as auxiliary corporations.

   During 2008, the Company expanded the means used in the past and purchased several computerized systems in order to improve the efficiency of the Company's activity as required by the Order.

   In the area of merchants, 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 continues; this process is expected to be completed in March 2009, as required by the Order. Computerized control systems for the receipt of identifying information of merchants have also been specified and planned.

   In the area of charge-card issuance, computerized control systems have been specified and planned for processes involved in customer identification, verification of customer information, receipt of documents, and delivery of charge cards.

   The training system has been expanded and improved.

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

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.

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 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. A petition for class-action status has already been filed on this matter, and was dismissed by the Supreme Court. The new petition is based on the fact that the enactment of the Class Actions Law has changed the situation, and allows claims to be filed under new causes. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class action and with regard to the substance of the claim. At this stage, it is not possible to estimate the probability of certification of the claim as a class action, or the chances of the claim itself.

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).

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

Reported amounts

In NIS millions

D. Agreement with Isracard

An agreement between the Company and Isracard anchors their joint activities. The principles of this agreement are listed below:

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

   Transactions executed in Israel in Israeli 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 shall pay Isracard Ltd. for management and operation of the arrangement, as agreed between them.

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

Composition:

	For the year ended December 31		
	2008	**2007**	**2006**
Income			
Income in respect of merchants	19	19	20
Europay's share of royalties from banks under arrangement	1	14	13
Total income	**20**	**33**	**33**
Expenses			
Operating expenses	17	16	17
Payments for operation and management of the arrangement	5	17	15
Total expenses	**22**	**33**	**32**
Total	**(2)**	***-**	**1**

* Amount lower than NIS 0.5 million.

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

E. Contractual Engagements with Banking Corporations

1. **Contractual engagement with Bank Hapoalim** – In February 2008, the Company and Isracard entered into a new agreement with Bank Hapoalim with regard to the issuance of cards, which replaces the previous contractual engagements between the parties on this matter (the "**Bank Hapoalim Agreement**"). The term of the Bank Hapoalim Agreement is fifteen years from the signing date, to be extended automatically for additional periods of five years each unless notice of non-extension is given in accordance to its terms. The inception of the Bank Hapoalim Agreement was subject to the receipt of the relevant approvals, including approval by the authorized organs of the Company, Europay, and Bank Hapoalim. Under the Bank Hapoalim Agreement, Bank Hapoalim is entitled, among other things, to receive various payments from the Company and from Europay, as specified in the agreement. The Bank Hapoalim Agreement also regularizes various matters related to cards, including the manner of joint issuance and operation, liability for damages, arrangements concerning new products and services, marketing, and special arrangements for as long as the Company is a subsidiary of Bank Hapoalim.

   The Bank Hapoalim Agreement was approved by the authorized organs of the aforesaid companies, and took effect in December 2008, pursuant and subject to its provisions.

2. **Contractual engagement with Mizrahi Bank** – In November 2007, a memorandum of principles was signed between the Company and Isracard, on one hand, and Mizrahi Bank, on the other hand, which stipulates, among other things, that Mizrahi Bank will continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years, in consideration for an allocation of shares at a rate of 1.8% of the ordinary issued share capital of each of the Company and Isracard. The value of the benefit inherent in the aforesaid allocation of shares of the Company and of Isracard to Mizrahi Bank amounts to approximately NIS 46 million. It was further agreed to conduct negotiations in order to reach a new agreement between the Company and Isracard, on one hand, and Mizrahi Bank, on the other hand, to also address the issuance of branded credit cards for Mizrahi Bank and establish arrangements for operation and the provision of services. As the negotiations regarding the signing of the new agreement did not result in a binding agreement, the existing contractual arrangements between the parties will continue to apply.

3. **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.

Note 6 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2008		December 31, 2007	
	Other interested parties		Other interested parties	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Isracard Ltd.	182	217	217	284

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

	For the year ended December 31		
	2008	2007	2006
Operating income (expenses)	(2)	*-	1
Net financing income	8	11	10
Total	**6**	**11**	**11**
Profit from extraordinary transactions after taxes	-	72	-

(1) See Note 5.D.

* Amount lower than NIS 0.5 million.

Note 7 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31		
	2008	**2007**	**2006**
Current taxes for the tax year	2	1	3

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		
	2008	**2007**	**2006**
Tax rate applicable to the Company in Israel	27%	29%	31%
Tax amount based on statutory rate	2	3	3
Tax increment (saving) in respect of:			
Increment (deduction) due to inflation	-	(2)	*-
Provision for taxes on income	**2**	**1**	**3**

* 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 7 – 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 and Ad Hoc), 5765-2005 (hereinafter: the “Amendment”).

The Amendment sets forth a gradual reduction of the corporation tax rate, as follows: a tax rate of 31% to apply in 2006, a tax rate of 29% to apply in 2007, a tax rate of 27% to apply in 2008, a tax rate of 26% to apply in 2009, and a tax rate of 25% to apply from 2010 forward.

In addition, as of 2010, with the reduction of the corporation tax rate to 25%, all real capital gains will be taxed at a rate of 25%.

Current taxes and deferred tax balances as of December 31, 2008 are calculated according to the new tax rates, as stipulated in the Amendment.

5. Rescission of the Adjustments for Inflation Law

On February 26, 2008, Knesset passed the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Limit of Effective Period), 5768-2008 (hereinafter: the "Amendment"). Pursuant to the Amendment, the effective period of the Adjustments Law ends in the tax year 2007, and the provisions of the law will no longer apply as of the tax year 2008, with the exception of transitional directives aimed at preventing distortions in tax calculations.

In accordance with the Amendment, as of the tax year 2008, the adjustment of income for tax purposes to a real measurement base was no longer calculated. In addition, the linkage to the CPI of amounts of depreciation of fixed assets and of the amounts of losses carried forward for tax purposes ceased, such that these amounts will be adjusted up to the CPI for the end of the tax year 2007, and will cease to be linked to the CPI from that date forward.

Note 8 – Profit from Extraordinary Transactions after Taxes

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
Profit from sale of shares	-	138	41
Pre-tax profit	-	138	41
Provision for taxes on profit from extraordinary transactions:			
Current taxes	-	39	13
Profit from extraordinary transactions after taxes	**-**	**99**	**28**

Note 9 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

	December 31	
	2008	2007
Total assets	182	217
Total liabilities	-	39
Shareholders’ equity	182	178
Nominal net profit	4	109

Note 10 – Other Matters

Preparation to acquire shares of Europay – As of the date of this report, the Company is held at a rate of 98.2% by Bank Hapoalim and 1.8% by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). To the best of the knowledge of the Company, Isracard is preparing for a possible acquisition from Bank Hapoalim of its entire stake in the Company. This acquisition has been approved by most of the relevant organs.