Europay (Eurocard) Israel Ltd.

Annual Report 2006

MasterCard ישראכרט

Isracard

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Eurocard (Europay) Israel Ltd.

Board of Directors' Report

For the Year Ended December 31, 2006

2006 Annual Board of Directors' Report

At the meeting of the Board of Directors held on March 12, 2007, it was resolved to approve and publish the financial statements of Europay (Eurocard) Israel Ltd. for the year ended on December 31, 2006.

Economic and Financial Developments

Economic Activity

2006 was the third year of continual growth in the Israeli economy since its emergence from the recession of 2001-2003. The war against Hezbollah in Lebanon in the third quarter influenced the economy for a limited period; its impact is currently apparent only in the area of tourism. According to estimates by the Central Bureau of Statistics, gross domestic product rose by 5%.

Growth in 2006 was influenced by favorable background conditions in the global economy and by an improvement in the condition of the average household, which led to an increase in domestic demand. Consequently, growth in the Israeli economy no longer relies almost exclusively on Israeli exports (which grew at a rate of 5.1% in 2006), but also derives from private consumption (4.6%) and investments in fixed assets (6.1%). Public consumption expenditures increased by 3.2% in 2006, mainly as a result of the increase in defense consumption due to the war in northern Israel.

The processes undergone by the Israeli economy in recent years and the global economic environment continue to support a high growth rate. Although the economy has now completed a three-year period of accelerated growth, its growth potential remains high for several reasons:

- The increase in labor productivity in the business sector over the last three years.
- The economy's high level of financial stability also contributes to firms and allows for low real interest rates.
- The global economy is growing at high rates compared to long-term averages.
- An optimistic attitude towards emerging markets has led to a significant increase in direct investments by foreigners in Israel.

Inflation and Exchange Rates

The consumer price index decreased by 0.1% in 2006. The annual rate of inflation was higher than the target range in the first half of the year, but moderated subsequent to the decline in energy prices, and especially due to the strengthening of the shekel against the dollar in the second half of the year. It is important to note that even excluding these factors, inflation would have totaled less than 2%. The increase in labor productivity, high unemployment rate, moderate increase in real wages, and cheap imports from the East are factors that serve to greatly mitigate inflationary pressures.

In 2006, the shekel appreciated by 8.2% against the dollar and by 5.2% against the currency basket, but depreciated by 2.2% against the euro. 2006 was the fourth year with a large surplus in the current account, which totaled USD 7.3 billion. The economy absorbed immense capital movements in 2006, most of which were entirely independent of the short-term interest rate. Foreign investments in Israel reached a record level of USD 21.2 billion. Direct investments totaled USD 13.2 billion, while portfolio investments reached USD 8 billion. The sharp increase resulted from several large transactions, but was largely part of a worldwide trend of increased capital movements. The trend of growth in direct and financial investments abroad continued in 2006, reaching USD 19.4 billion. This increase reflects the continued trend of global diversification of asset portfolios.

Fiscal and Monetary Policy

The government budget deficit totaled just NIS 5.5 billion in 2006, or 0.9% of the GDP, versus a target deficit of 3% of GDP. The low deficit mainly resulted from an increase on the revenue side. excluding legislative changes, tax revenues grew at a real rate of approximately 11% year-on-year. It was possible to maintain the overall planned framework, despite the increase in expenses resulting from the war, due to a cutback across the board in most civilian government ministries and redirection of budgets to the Ministry of Defense. The ratio of government debt to GDP fell substantially, to 86% at the end of 2006 versus 95% in 2005.

The Bank of Israel interest rate increased gradually during the course of 2006, from 4.5% to 5.5% in the third quarter. In the last quarter of the year, as the inflation environment fell below the target range due to the appreciation of the shekel against the dollar and the decline in energy prices, the Bank of Israel interest rate started to drop, reaching 4.25% in February 2007. Note that the interest rate in Israel is lower than the US rate by 1%.

	2006	2005	Rate of change
Consumer price index – December	102.9	103	(0.1%)
USD exchange rate (NIS per USD 1)*	4.225	4.603	(8.2%)
EUR exchange rate (NIS per EUR 1)*	5.5643	5.4465	2.2%

* As at December 31.

Profit and Profitability

The Company's net operating profit totaled NIS 8 million, compared with NIS 7 million in 2005, an increase of 14.3%.

The Company's net profit from extraordinary transactions, after taxes, totaled NIS 28 million. This profit derived from the consideration received in respect of a sale, as a result of the redemption of 59% of the shares of MasterCard Incorporated held by the Company. See Note 4B.

The Company's net profit totaled NIS 36 million, compared with NIS 7 million in 2005, an increase of 414%.

Return of net operating profit on equity totaled 3.3%, compared with 3.4% in 2005.

Net return on equity reached 15%, compared with 3.4% in 2005.

The Company's Operating Segments

General

The Company, jointly with Isracard Ltd. (hereinafter: "Isracard"), a sister company, 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 by MasterCard International Incorporated.

In addition, the Company clears transactions with suppliers 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 supplier in foreign currency.

Isracard manages and operates issuance activity and credit card clearing activity for the Company.

The Issuance Segment

The issuer, i.e. 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 businesses, and the businesses provide the credit card holders with goods or services.

Customers join the credit card system by signing a credit card contract with the issuer and receiving the credit card. Credit card holders make a commitment to repay amounts owed arising from their use of the credit card.

The issuer collects various fees from the customer (the cardholder) and interchange fees or business fees from the clearer or business, respectively, for card issuance and operational services.

The range of different types of credit cards issued by the Company includes credit cards issued jointly with consumer, professional, and other organizations, clubs, and groups.

The credit cards serve customers in various sectors, among them private customers, corporate employees, and corporate purchasing.

Cards issued by the Company are distributed to account holders at banks with which the Company has agreements, including Bank Hapoalim B.M. (its parent company), Bank Yahav for Government Employees Ltd. (a related party), Bank Massad Ltd. (a related party), Bank Otsar Hahayal Ltd., Bank Mizrahi-Tefahot Ltd., First International Bank of Israel Ltd., and Bank Poaley Agudat Israel Ltd. (together – "Banks Under Arrangement").

The Company also issues cards through various other channels, including through agreements with organizations and clubs.

Competition in the Issuance Segment has increased in recent years and exists in all areas of activity and population segments within this sector.

The segment's results are not material; therefore, Note 10 does not include details regarding the Issuance Segment.

The Clearing Segment

Clearers enter into permanent contractual relationships with businesses in which the clearer undertakes a commitment to the business, subject to compliance with the terms of their agreement, to clear sales slips of transactions executed using a particular card; i.e., to credit the business for the consideration owed to it in respect of customers' transactions in cards of that type, subject to the fulfillment of the terms stipulated in the contract signed with it. In return for the clearing services provided to the business, the clearer charges the business a fee known as the "business fee."

The Company has clearing agreements with businesses in various industries, and offers the businesses clearing of sales slips for transactions executed by tourists in Israel holding MasterCard cards, as noted above.

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

Income and expenses in the Clearing Segment – net income under the Company's agreement with Isracard for the operation of the arrangement between then (see "Arrangement with Isracard Ltd." below).

Quantitative Data on Operating Segments:

	For the year ended					
	December 31, 2006			December 31, 2005		
	Reported amounts, in NIS millions					
	Clearing Segment	Other	Total	Clearing Segment	Other	Total
Profit and Loss Data:						
Net operating income (expenses) under the agreement with Isracard Ltd.	1	-	1	(1)	-	(1)
Net profit from financing activity	10	-	10	9	-	9
Operating profit before taxes	**11**	**-**	**11**	**8**	**-**	**8**
Provision for taxes on operating profit	3	-	3	1	-	1
Net operating profit	**8**	**-**	**8**	**7**	**-**	**7**
Profit from extraordinary transactions after taxes	-	28	28	-	-	-
Net profit	**8**	**28**	**36**	**7**	**-**	**7**
Additional Information:						
Balance of assets	251	-	251	203	-	203
Balance of liabilities	-	12	12	-	-	-

Developments in Balance Sheet Items

The balance sheet as at December 31, 2006 totaled NIS 251 million, compared with NIS 203 million on December 31, 2005.

The following are the developments in the principal balance sheet items:

Other assets totaled NIS 251 million on December 31, compared with NIS 203 million at the end of 2005. The increase resulted from an increase in the debt balance of Isracard, due to the increase in shareholders' equity of the Company deposited with Isracard.

Shareholders' equity totaled NIS 239 million on December 31, 2006, compared with NIS 203 million at the end of 2005. The 17.7% increase resulted from the Company's net profit in 2006.

The ratio of shareholders' equity to the balance sheet reached 95.2% on December 31, 2006, compared with 100% at the end of 2005.

The ratio of capital to risk components reached 96.8% on December 31, 2006, compared with 100% at the end of 2005. The minimum capital ratio required by the Bank of Israel is 9%.

Antitrust Issues and Recommendations for Additional Regulation

Most of the Company's activity in Israel is performed for the Company and on its behalf by its sister company Isracard Ltd. (hereinafter: "Isracard"). In the area of clearing, this activity includes clearing of transactions executed with businesses in Israel in foreign currency using MasterCard cards issued abroad. Isracard clears, for itself, transactions executed with businesses 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 B.M. (hereinafter: the "Bank") indicate the following, among other matters: In May 2005, the Antitrust Commissioner (hereinafter: the "Commissioner") declared Isracard a holder of a monopoly in clearing 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 the Bank, together with other credit card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a binding arrangement under the terms formulated and agreed upon with the Antitrust Commissioner; at this stage, a provisional permit has been granted in response to this request, pending a discussion of a temporary permit and the objections submitted. The aforesaid arrangement includes, among other things, the establishment of an interchange fee (a fee paid by clearers of transactions in credit cards to the issuers of the credit cards).

Although the Company is not directly associated with the processes described above, the Company estimates that their materialization or partial materialization may influence the activity of Isracard and of competitors in the area of credit cards in Israel, thereby also indirectly affecting the course of action of the Company, and may have a material adverse impact on the Company's financial results in the future. The Company cannot estimate which of the factors mentioned will materialize, when such factors may materialize, or what would be the extent of the impact.

A report by the Interministerial Committee for the Examination of Market Failures in the Credit Card Industry (hereinafter: the "Committee"), headed by the Accountant-General at the Ministry of Finance, was published at the end of February 2007. The Committee believes there are market failures in the credit card market and proposes amending the Banking (Licensing) Law, 5741-1981, in order to implement the following recommendations:

A. To appoint a qualified entity who in order to ensure competition in the area of clearing charge cards will have the authority to:

    1. Require mutual clearing among the three credit card companies currently operating in the Visa and MasterCard markets, as well as between the aforesaid three companies and any new company to enter these markets.

    2. Require issuers in a closed credit card system of significant volume to allow all clearers to clear their cards, thereby opening the clearing of these credit card systems to competition.

B. To appoint the Supervisor of Banks as the authorized entity, and to grant him the authority to supervise issuers and clearers, including supervision of the rate of interchange fees.

C. To encourage new suppliers to enter the field of issuing and clearing.

D. The Committee also made recommendations regarding the discount of transactions performed using credit cards (hereinafter: “discount”).

The Company estimates that legislation in accordance with the recommendations of the Committee regarding the clearing of transactions executed in credit cards (as opposed to its recommendations regarding discount) and the subsequent activity of existing or new competitors in the credit card market may influence the Company’s course of action and its income; however, at this stage the Company cannot estimate the extent of the impact on its course of action and income.

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 under the obligation to all directors in respect of one or more indemnification events shall not exceed 30% (thirty percent) of its shareholders' equity according to its financial statements dated June 30, 2004 (which stood at a total of NIS 190 million).

Agreement with Isracard Ltd.

An agreement has been signed between the Company and Isracard (a sister company) to regulate their common activities. The main principles of the agreement are described below:

A. Clearing of transactions executed in Israel using cards issued abroad

Clearing of transactions executed in Israel, in Israeli or foreign currency, and paid to the supplier in Israeli currency shall be performed by Isracard, while clearing of transactions executed in Israel in foreign currency and paid to the supplier in foreign currency shall be performed by the Company.

B. Payment for management and operation

The Company shall pay Isracard for the management and operation of the arrangement, as agreed between them.

Event after the Balance Sheet Date

On March 11, 2007, Bank Hapoalim B.M. (hereinafter: the "Bank") published an immediate report announcing that it had reached an agreement with The Phoenix Holdings Ltd. (hereinafter: "The Phoenix") under which The Phoenix will acquire 25% of the shares of the Company and 25% of the shares of Isracard Ltd., a sister company.

The consideration to be paid by The Phoenix to the Bank will be calculated based on an aggregate value of NIS 2.55 billion for the companies. In the case of an offering to the public of the companies within 15 months, the value of the transaction will be adjusted to an amount representing 90% of the value at the offering, up to an amount of NIS 2.7 billion.

Execution of the transaction is subject to due diligence and various regulatory approvals, as well as approval by the managements and boards of directors of the Bank and of The Phoenix.

The Board of Directors

In 2006, the Board of Directors of the Company continued to set forth the Company's policy and the guidelines for its activity and establish directives on various matters.

13 meetings of the Board of Directors and 7 meetings of the Audit Committee were held in 2006.

Members of the Board

Dan Dankner	Chairman of the Board of Directors of the Company. Chairman of the board of directors of the following companies: Israel Salt Industries Ltd.; Isracard Ltd.; Aminit Ltd.; Poalim Capital Markets Ltd.; Poalim Express Ltd.; Poalim Capital Markets and Investment Holdings Ltd.; Poalim Ventures – Fund Management Ltd.; Poalim Capital Markets – Investment House Ltd.; Diur B.P. Ltd. Chairman of the Administrative Committee of the Poalim in the Community Foundation; Chairman of Beterem Organization; Chairman of the Administrative Committee of the Peretz Naftali Fund. Member of the board of directors of the following companies: Elran (D.D.) Investments Ltd.; Intact Investments Ltd.; Intact Holdings Ltd.; Danran Holdings Ltd.; Intact Real Estate and Infrastructures Ltd.; Adam-Dan Investments Ltd.; Dankner (D.D.) Infrastructures Ltd.; Leenoy Holdings Ltd.; Kirur Mazon Atlit Ltd.; Salt Industries Share Holdings (1998) Ltd.; Bank Hapoalim B.M.; Carmel Chemicals Ltd.; Sheraton Moriah (Israel) Ltd.; Sea Gate Mariculture Ltd.
Lilach Asher-Topilsky	Head of Marketing and Strategic Planning Division at Bank Hapoalim B.M. Member of the board of directors of Isracard Ltd.
Yair Ben-David(1)	Attorney. Serves as an external director under the Bank of Israel's Proper Conduct of Banking Business Directive No. 301. Member of the board of directors of the following companies: Isracard Ltd.; Timna Copper Mines Ltd.

Tamar Ben-David

Attorney.

Serves as an external director under the Bank of Israel's Proper Conduct of Banking Business Directive No. 301.

Member of the board of directors of the following companies: Deutsche Securities Israel Ltd.; Isracard Ltd.; Aminit Ltd.

Jacky Wakim

Accountant.

Serves as an external director under the Bank of Israel's Proper Conduct of Banking Business Directive No. 301.

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.; Poalim Express Ltd.; MTM – Scientific Industries Center Haifa Ltd.

Member of the Advisory Council to the Bank of Israel.

Ron Wexler

Head of E-Banking and Business Development Division at Bank Hapoalim B.M.

Member of the board of directors of the following companies: Isracard Ltd.; MyBills Ltd.

Eldad Kahana

Attorney at Bank Hapoalim B.M.

Member of the board of directors of the following companies: Isracard Ltd.; Aminit Ltd.

David Luzon

Member of the Board of Management of Bank Hapoalim B.M., Head of Information Technology and Operations.

Member of the board of directors of the following companies: Isracard Ltd.; Automated Banking Services Ltd.; Bank Clearing Center Ltd.; Poalit Ltd.

Moshe Amit

Director of companies.

Chairman of the board of directors of the following companies: Delek Israel Fuel Company Ltd.; Global Factoring Ltd.

Member of the board of directors of the following companies: Isracard Ltd.; Bank Hapoalim (Switzerland) Ltd.; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets – Investment House Ltd.; Tempo Beer Industries Ltd.; Blue Square Chain Properties & Investments Ltd.

Uriel Paz

Hasharon Regional Manager at Bank Hapoalim B.M.

Member of the boards of directors of the following companies: Isracard Ltd.; Paz D.A. Investments Ltd.

Dafna Pelli

Director of companies.

Member of the boards of directors of the following companies: Isracard Ltd.; Bank Otsar Hahayal Ltd.; Board of Governors of the Jerusalem College of Engineering.

Zion Kenan

Deputy CEO and Member of the Board of Management of Bank Hapoalim B.M., Head of Retail Banking.

Member of the board of directors of the following companies: Isracard Ltd.; Poalim Express Ltd.; Poalim Asset Management (Ireland) Ltd.; PAM Holdings Ltd.; Poalim Asset Management (UK) Ltd.; Bank Pozitif Credi Ve Kalkinma Bankasi Anonim Sirketi.

Haim Krupsky

General Manager of the following credit card companies: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminit Ltd.; Poalim Express Ltd. (as of March 27, 2006).(2)

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

Member of the board of directors of the following companies: Isracard Ltd.; Aminit Ltd.; Poalim Express Ltd.; Store Alliance Com Ltd.(3)

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

Yacov Rozen(4)

Member of the Board of Management of Bank Hapoalim B.M., Head of Finance and Information Systems.

	Member of the board of directors of the following companies: Isracard Ltd.; Aminit Ltd.; Maalot – The Israel Securities Rating Company Ltd.; Poalim Egoz – Hevra Finansit Ltd.; Poalim Capital Markets – Investment House Ltd.; Poalim Capital Markets and Investment Holdings Ltd.; Sure-Ha International Ltd.
Ronny Shaten	Industrialist and director of companies. Serves as an external director under the Bank of Israel's Proper Conduct of Banking Business Directive No. 301. CEO of Super Plast Ltd. Chairman of the board of directors of the following companies: Super Plast Ltd., A.M.S. Electronics Ltd. Member of the board of directors of the following companies: Isracard Ltd.; Aminit Ltd.; Poalim Express Ltd.; Newlog Ltd.; Exel – Multi Purpose Logistics Ltd.; Overseas Commerce Ltd.; Exel M.P.L. – A.V.B.A. Ltd.
Isaac Behar(5)	
Shy Talmon(6)	

(1) Serves as a director as of May 1, 2006.

(2) Until March 26, 2006, served as Deputy Chairman of the Board of Directors of Poalim Express Ltd.

(3) Until July 2006, served as a director of MasterCard Europe sprl. Also served until that date as Chairman of the Southern Europe Sub-Regional Board of MasterCard Europe.

(4) Serves as a director as of August 10, 2006.

(5) Ceased to serve as a director on August 10, 2006.

(6) Ceased to serve as a director on May 1, 2006.

Members of the Board of Management:

Haim Krupsky	Chief Executive Officer.
Pinhas Shalit	Head of Finance and Administration.
Ronen Zaretsky	Head of Information Technology and Operations.
Eli Burg	Head of Trade and Sales.
Moshe Livnat	Head of Marketing and Public Relations.
Alberto Langa	Head of Security.
David Cohen	Head of Customer Relations.
David Doron	Head of Human Resources and Organization.
Ami Elfan	Head of Strategic Planning.
Ayala Tidhar	Head of Advertising, Head of Local Cards Unit.
Ron Cohen	Head of Credit and Financial Services Unit.

Dan Dankner	**Haim Krupsky**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, March 12, 2007

Europay (Eurocard) Israel Ltd.

Financial Statements

For the Year Ended December 31, 2006

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BDO ZIV HAFT

KPMG Somekh Chaikin

Auditors' Report to the Shareholders of Europay

We have audited the accompanying consolidated financial statements of Europay Ltd. (hereinafter: "the Company"): Balance Sheets as at December 31, 2006 and 2005 and the related statements of profit and loss, shareholders' equity for each of the two years, the last of which ended December 31, 2006. 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, including standards prescribed by the Auditors Regulations (Manner of auditor's Performance) 1973. 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 devaluating the overall financial statement presentation. We believe that our audit provides 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 consolidated financial position of the Company as at December 31, 2006 and 2005 and the results of operations, changes in shareholders' equity for each of the two years, the last of which ended December 31, 2006, in conformity with Generally Accepted Accounting Principles. Furthermore, in our opinion, these statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks (see note 1.B to the financial statements).

As explained in Note 2, the aforementioned financial statements are presented in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board.

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

Balance Sheets

Reported amounts

In NIS millions

	Note	December 31 2006	December 31 2005
Assets			
Other assets	3	251	203
Securities	4	*-	*-
Total assets		**251**	**203**
Liabilities			
Expenses payable		12	-
Total liabilities		**12**	**-**
Contingent liabilities and special agreements	6	-	-
Shareholders' equity	5	239	203
Total liabilities and capital		**251**	**203**

* Amounts lower than NIS 0.5 million.

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

Dan Dankner	**Haim Krupsky**	**Ita Lampert**
Chairman of the Board of Directors	Chief Executive Officer	Chief Accountant

Tel Aviv, March 12, 2007

Statements of Profit and Loss

Reported amounts

In NIS millions

		For the year ended December 31	
	Note	2006	2005
Net operating income (expenses) under agreement with Isracard Ltd.	6C	1	(1)
Profit from financing activity		10	9
Operating profit before taxes		**11**	**8**
Provision for taxes on operating profit	8	3	1
Net operating profit		**8**	**7**
Profit from extraordinary transactions after taxes	9	28	-
Net profit		**36**	**7**
Net profit per ordinary share (in NIS)			
Operating profit		19	17
Profit from extraordinary transactions		67	-
Total		**86**	**17**
Number of ordinary shares used in calculation		**420,000**	**420,000**

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

Reports on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	Share capital	Surpluses	Total shareholders' equity
Balance as at January 1, 2005	**1**	**195**	**196**
Net profit in the accounting year	-	7	7
Balance as at December 31, 2005	**1**	**202**	**203**
Net profit in the accounting year	-	36	36
Balance as at December 31, 2006	**1**	**238**	**239**

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

Note 1 – General

A. Europay (Eurocard) Israel Ltd. (hereinafter: the "Company") was established in 1972 and is wholly owned by Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking (Licensing) Law, 5741-1981.

The Company is mainly engaged in issuing MasterCard type credit cards for use abroad and in clearing transactions in MasterCard type credit cards executed by tourists in Israel with businesses 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. Due to the first-time implementation of the directives and guidelines of the Supervisor of Banks, the Company's financial statements as at December 31, 2005 were restated according to the aforesaid directives.

Note 2 – 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 Israeli Accounting Standards Board published Accounting Standard No. 12, with regard to "Cessation of Adjusting Financial Statements." 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 financial statements as at 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 to changes in the general purchasing power of Israeli currency (Note 11 includes information based on historical nominal data, for tax purposes).
2. In the past, the Company prepared its financial statements based on historical cost adjusted to the consumer price index. Amounts adjusted in the aforesaid manner included in the financial statements as at December 31, 2003 served as a starting point for nominal financial reporting as of January 1, 2004. Additions performed during the period were included at nominal values.
3. The amounts of non-monetary assets do not necessarily represent the exercise value or the current economic value; they reflect only the reported amounts of those assets.
4. In the financial statements, "cost" refers to cost in reported amounts.
5. Balance sheets:

   Non-monetary items are presented in reported amounts.

   Monetary items are presented in the balance sheet at historical nominal values as at the balance sheet date.
6. 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 – Significant Accounting Policies (cont.)

C. Impairment of Assets

The Company applies 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 of the asset and from its realization).

The Standard applies to all assets in the balance sheet, with the exception of tax assets and monetary assets. The Standard further stipulates rules for presentation and disclosure with regard to 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 value. 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 are classified by the Company as securities available for sale. The securities have no available fair value and they are presented at cost, which is lower than NIS 0.5 million.

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

Segmental reporting is presented in accordance with the directives of the Supervisor of Banks – see also Note 10.

G. Statement of Cash Flows

No statement of cash flows was prepared, as it would not add significant information to the financial statements.

H. Fair Value of Financial Instruments

The balance sheet value of financial instruments constitutes an approximation of their fair value.

Note 2 – Significant Accounting Policies (cont.)

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 conditional assets and contingent 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 according to 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.

Set out below are data regarding the consumer price index (2000 base = 100) and exchange rates and their rates of change during the accounting period:

	December 31	
	2006	**2005**
Consumer price index (in points)	102.9	103.0
United States dollar exchange rate (in NIS per USD 1)	4.225	4.603

	Percentage change for the year ended December 31	
	2006	**2005**
Consumer price index	(0.1)	2.4
USD exchange rate	(8.2)	6.9

Note 2 – Significant Accounting Policies (cont.)

K. Disclosure of the Effect of New Accounting Standards in the Period Before their Implementation

1. 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 as of 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 accounting standards as stipulated in the Public Reporting Directives.

2. In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Party" (hereinafter: the "Standard"). The Standard replaces Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Party in Financial Statements), 5756-1996, and stipulates that assets and liabilities with regard to which a transaction was executed between the 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 surpluses. A positive difference constitutes an owner investment, and shall therefore be presented in a separate item under shareholders' equity entitled "Capital fund from a transaction between the entity and its controlling party."

Note 2 – Significant Accounting Policies (cont.)

K. Disclosure of the Effect of New Accounting Standards in the Period before their Implementation (cont.)

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.

As at the date of publication of the financial statements, the Supervisor of Banks has yet to issue directives with regard to the manner of adoption of the Standard by credit card companies, if at all.

Note 3 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Surplus of advance income tax payments over current provisions	4	-
Isracard Ltd. (a related party)	247	203
Total other assets	**251**	**203**

Note 4 – Securities

Reported amounts

In NIS millions

A. Securities Available for Sale:

	December 31	
	2006	**2005**
Composition:		
Shares	*-	*-
Total	*-	*-

* The shares have no available fair value; they are presented at cost, which is lower than NIS 0.5 million.

B. In 2005, MasterCard Incorporated (hereinafter: MC) decided to implement a structural change and to float its shares to the public.

The public offering was performed in May 2006 on the stock exchange in the United States. Within the offering, type A shares held by existing members of the MC organization (including the Company) were converted into type B shares; according to the terms of the prospectus, 59% of shares of this type were to be redeemed by MC.

The Company, as the owner of 507,656.70 type B shares of MC, received, in consideration for the sale resulting from the redemption of 59% of the shares which it held, the amount of approximately USD 9.2 million (approximately NIS 41 million), in respect of which the Company recorded a net profit in the amount of NIS 28 million, stated under the item "Profit from extraordinary transactions after taxes."

Following the aforesaid sale, the Company holds 208,139 type B shares, which do not grant voting rights and are not tradable on the stock exchange, and one type M share, which grants all holders of type M shares together the right to appoint up to three directors (but no more than 25% of the directors).

Note 5 – Shareholders' Equity

A. Composition:

	Registered	Issued and paid-up	
		Dec. 31, 2006	Dec. 31, 2005
		In NIS	In NIS
Common shares of NIS 0.0001 par value	100	42	42

B. Capital Adequacy According to the Supervisor of Banks' requirements

Reported amounts

In NIS millions

	December 31, 2006		December 31, 2005	
	Balance	Risk balance	Balance	Risk balance
1. Capital for the purpose of calculating the capital ratio:				
Tier 1 capital	239	-	203	-
2. Weighted risk balance:				
Credit risk – assets:				
Other assets	251	247	203	203
Total assets	**251**	**247**	**203**	**203**
Total credit risk assets	251	247	203	203
Market risk	-	-	-	-
Total risk assets	**251**	**247**	**203**	**203**
3. Ratio of capital to risk components:	In %		In %	
Ratio of Tier 1 capital to risk components	96.8		100	
Ratio of total capital to risk components	96.8		100	
Minimum ratio of total capital required by the Supervisor of Banks	9		9	

Note 6 – Contingent Liabilities and Special Agreements

A. Antitrust Issues and Recommendations for Additional Regulation

Most of the Company's activity in Israel is performed for the Company and on its behalf by its sister company Isracard Ltd. (hereinafter: "Isracard"). In the area of clearing, this activity includes clearing of transactions executed with businesses in Israel in foreign currency using MasterCard cards issued abroad. Isracard clears, for itself, transactions executed with businesses 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 B.M. (hereinafter: the "Bank") indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in clearing 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 the Bank, together with other credit card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a binding arrangement under the terms formulated and agreed upon with the Antitrust Commissioner; at this stage, a provisional permit has been granted in response to this request, pending a discussion of a temporary permit and the objections submitted. The aforesaid arrangement includes, among other things, the establishment of an interchange fee (a fee paid by clearers of transactions in credit cards to the issuers of the credit cards).

Although the Company is not directly associated with the processes described above, the Company estimates that their materialization or partial materialization may influence the activity of Isracard and of competitors in the area of credit cards in Israel, thereby also indirectly affecting the course of action of the Company, and may have a material adverse impact on the Company's financial results in the future. The Company cannot estimate which of the factors mentioned will materialize, when such factors may materialize, or what would be the extent of the impact.

A report by the Interministerial Committee for the Examination of Market Failures in the Credit Card Industry (hereinafter: the "Committee"), headed by the Accountant-General at the Ministry of Finance, was published at the end of February 2007. The Committee believes there are market failures in the credit card market and proposes amending the Banking (Licensing) Law, 5741-1981, in order to implement the following recommendations:

A. To appoint a qualified entity who in order to ensure competition in the area of clearing charge cards will have the authority to:

   1. Require mutual clearing among the three credit card companies currently operating in the Visa and MasterCard markets, as well as between the aforesaid three companies and any new company to enter these markets.

   2. Require issuers in a closed credit card system of significant volume to allow all clearers to clear their cards, thereby opening the clearing of these credit card systems to competition.

Note 6 – Contingent Liabilities and Special Agreements (cont.)

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

B. To appoint the Supervisor of Banks as the authorized entity, and to grant him the authority to supervise issuers and clearers, including supervision of the rate of interchange fees.

C. To encourage new suppliers to enter the field of issuing and clearing.

D. The Committee also made recommendations regarding the discount of transactions performed using credit cards (hereinafter: "discount").

The Company estimates that legislation in accordance with the recommendations of the Committee regarding the clearing of transactions executed in credit cards (as opposed to its recommendations regarding discount) and the subsequent activity of existing or new competitors in the credit card market may influence the Company's course of action and its income; however, at this stage the Company cannot estimate the extent of the impact on its course of action and income.

B. 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 under the obligation to all directors in respect of one or more indemnification events shall not exceed 30% (thirty percent) of its shareholders' equity according to its financial statements dated June 30, 2004 (which stood at a total of NIS 190 million).

C. Agreement with Isracard Ltd.

An agreement has been signed between the Company and Isracard (a sister company) to regulate their common activities. The main principles of the agreement are described below:

A. Clearing of transactions executed in Israel using cards issued abroad

Clearing of transactions executed in Israel, in Israeli or foreign currency, and paid to the supplier in Israeli currency shall be performed by Isracard Ltd., while clearing of transactions executed in Israel in foreign currency and paid to the supplier in foreign currency shall be performed by the Company.

B. Payment for management and operation

The Company shall pay Isracard Ltd. for the management and operation of the arrangement, as agreed between them.

Note 6 – Contingent Liabilities and Special Agreements (cont.)

C. Agreement with Isracard Ltd. (cont.)

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

Composition:

	For the year ended December 31	
	2006	**2005**
	Reported amounts, in NIS millions	
Income		
Income in respect of businesses	20	17
Europay's share of royalties from Banks Under Arrangement	13	13
Total income	33	30
Expenses		
Operating expenses	17	17
Payments for operation and management of the arrangement	15	14
Total expenses	32	31
Total	**1**	**(1)**

Note 7 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2006		December 31, 2005	
	Shareholders		Shareholders	
	Others		Others	
	Year-end balance	Highest balance for the year	Year-end balance	Highest balance for the year
Isracard Ltd.	247	247	197	197

B. Summary of Results of Business with Interested and Related Parties

	For the year ended December 31	
	2006	2005
Other interested parties		
Operating income (expenses)	1	(1)
Net financing income	10	9
Total	**11**	**8**

Note 8 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended	
	December 31, 2006	December 31, 2005
Current taxes for the accounting year	3	1

2. Adjustment of the theoretical tax amount 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, 2006	December 31, 2005
Tax rate applicable to the Company in Israel	31%	34%
Tax amount based on statutory rate	3	3
Deduction for inflation	*-	(2)
Provision for taxes on income	**3**	**1**

* Amounts lower than NIS 0.5 million.

3. Final assessments have been issued to the Company up to and including the 2002 tax year, including tax assessments considered final under the Income Tax Ordinance.

Note 9 – Profit from Extraordinary Transactions after Taxes

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	**2005**
Profit from sale of shares	41	-
Profit before taxes	41	-
Provision for taxes on profit from extraordinary transactions:		
Current taxes	13	-
Profit from extraordinary transactions after taxes	**28**	**-**

Note 10 – Operating Segments

Reported amounts

In NIS millions

	For the year ended					
	December 31, 2006			December 31, 2005		
	Clearing Segment	Other	Total	Clearing Segment	Other	Total
Profit and Loss Data:						
Net operating income (expenses) under the agreement with Isracard Ltd.	1	-	1	(1)	-	(1)
Net profit from financing activity	10	-	10	9	-	9
Operating profit before taxes	**11**	**-**	**11**	**8**	**-**	**8**
Provision for taxes on operating profit	3	-	3	1	-	1
Net operating profit	**8**	**-**	**8**	**7**	**-**	**7**
Profit from extraordinary transactions after taxes	-	28	28	-	-	-
Net profit	**8**	**28**	**36**	**7**	**-**	**7**
Additional Information:						
Balance of assets	251	-	251	203	-	203
Balance of liabilities	-	12	12	-	-	-

Note 11 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Total assets	251	203
Total liabilities	12	-
Shareholders' equity	239	203
Nominal net profit	36	7

Note 12 – Event after the Balance Sheet Date

On March 11, 2007, Bank Hapoalim B.M. (hereinafter: the "Bank") published an immediate report announcing that it had reached an agreement with The Phoenix Holdings Ltd. (hereinafter: "The Phoenix") under which The Phoenix will acquire 25% of the shares of the Company and 25% of the shares of Isracard Ltd., a sister company.

The consideration to be paid by The Phoenix to the Bank will be calculated based on an aggregate value of NIS 2.55 billion for the companies. In the case of an offering to the public of the companies within 15 months, the value of the transaction will be adjusted to an amount representing 90% of the value at the offering, up to an amount of NIS 2.7 billion.

Execution of the transaction is subject to due diligence and various regulatory approvals, as well as approval by the managements and boards of directors of the Bank and of The Phoenix.