Isracard Ltd. and its Consolidated Companies

Annual Report 2006

Table of Contents

Isracard Ltd. and its Consolidated Companies

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 Isracard Ltd. and its consolidated subsidiaries 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, 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 one percent.

	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.

Operational Data

- The number of Isracard and MasterCard cards issued by the Company valid on December 31, 2006, is 2.4 million (2005: 2.3 million cards).
- The volume of purchases using Isracard and MasterCard cards reached NIS 56.9 billion in 2006 (2005: NIS 51.1 billion).

Profit and Profitability

The Company's net profit totaled NIS 120 million, compared with NIS 102 million in 2005, an increase of 17.6%.

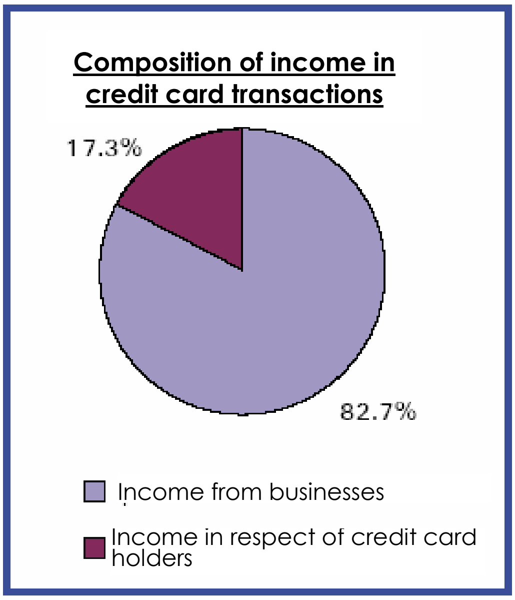
Net return on equity reached 20.5%, compared with 21.2% in 2005.

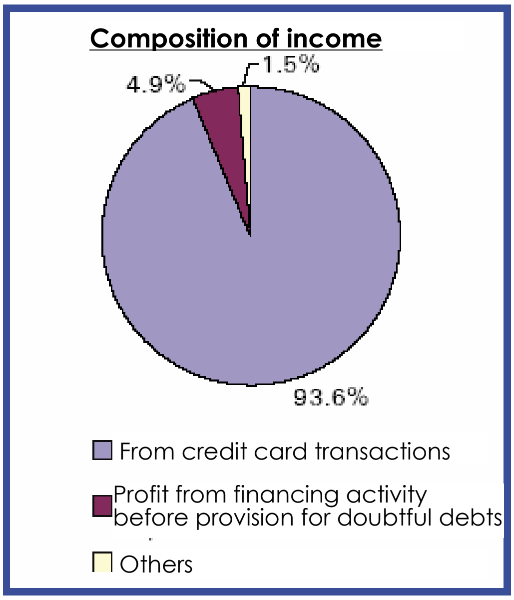
The increase in the Company's net profit as compared to 2005 mainly resulted from the following four factors:

- An increase of approximately 12% in the volume of activity using the Group's credit cards.
- An increase of approximately 3% in the number of customers.
- An increase in the volume of credit to customers.
- An increase in the Bank of Israel interest rate.

Developments in Income and Expenses

Income totaled NIS 1,076 million, compared with NIS 958 million in 2005, an increase of 12.3%.





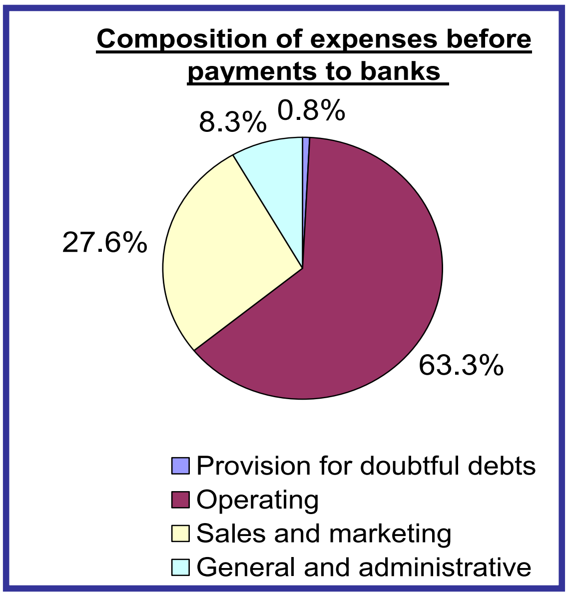
Income from credit card transactions totaled NIS 1,007 million, compared with NIS 905 million in 2005, an increase of 11.3%. The increase resulted from the following factors:

- Income from businesses – totaled NIS 833 million, compared with NIS 753 million in 2005, an increase of 10.6%, which resulted from a 12% increase in the local volume of purchases in the Company's cards.
- Income in respect of credit card holders – totaled NIS 174 million, compared with NIS 152 million in 2005, an increase of 14.5%, which resulted from an increase of approximately 3% in the number of customers as well as from the effect of the increase in the volume of purchases in the Company's cards in Israel and abroad.

Profit from financing activity before provision for doubtful debts totaled NIS 53 million, compared with NIS 40 million in 2005, an increase of 32.5%. The increase mainly resulted from an increase in interest rates during 2006.

Other income totaled NIS 16 million, compared with NIS 13 million in 2005, an increase of 23.1%.

Expenses before payments to banks totaled NIS 515 million, compared with NIS 436 million in 2005, an increase of 18.1%.



Expenses including payments to banks totaled NIS 901 million, compared with NIS 800 million in 2005, an increase of 12.6%.

The provision for doubtful debts totaled NIS 4 million. In 2005, the provision for doubtful debts was less than NIS 0.5 million.

Operating expenses, including the payment of interchange fees to other issuers, totaled NIS 326 million, compared with NIS 279 million in 2005, an increase of 16.8%. The increase resulted from the following factors:

- An increase in expenses for preparation and delivery of information to customers and businesses, due to the growth in the Company's activity.
- An increase in salary and incidental expenses, mainly due to hiring of new employees in the area of customer service.
- An increase in data processing and computer maintenance expenses, due to the growth in the Company's activity.

Expenses for interchange fees to other issuers totaled NIS 37 million, compared with NIS 33 million in 2005, an increase of 12.1%.

Sales and marketing expenses totaled NIS 142 million, compared with NIS 106 million in 2005, an increase of 34%.

Most of the increase resulted from expenses aimed at retaining market share, encouraging use of the Company's products, and product promotion.

General and administrative expenses totaled NIS 43 million, compared with NIS 51 million in 2005, a decrease of 15.7%.

Payments to banks for their share in the surplus of the Company's income over its expenses totaled NIS 386 million, compared with NIS 364 million in 2005, an increase of 6%, which resulted from an increase in the surplus of income over expenses in 2006.

The ratio of expenses to income before payments to banks reached 47.9%, compared with 45.5% in 2005.

Operating profit before taxes totaled NIS 175 million, compared with NIS 158 million in 2005, an increase of 10.8%.

The return of operating profit before taxes on equity reached 30%, compared with 32.8% in 2005.

The provision for taxes on operating profit totaled NIS 55 million, compared with NIS 54 million in 2005. The effective rate of tax out of total operating profit before taxes reached 31.4%, compared with 34.2% in 2005. These effective tax rates are similar to the statutory tax rates in the relevant years.

Net profit totaled NIS 120 million, compared with NIS 102 million in 2005, an increase of 17.6%.

Net return on equity reached 20.5%, compared with 21.2% in 2005.

The Company's Operating Segments

General

The Company issues, clears, and operates Isracard type credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. ("Europay"), which combine the Isracard and **MasterCard** brands ("MasterCard cards"), and clears and operates MasterCard cards issued by the Company for use in Israel and by Europay for use abroad, under a license from **MasterCard International Incorporated**.

Credit card systems consist of an issuer, a clearer, a business and a customer (the cardholder). In some cases, the clearer is also the issuer of the credit card, whereas in other cases the clearer and the issuer are not the same entity. The Company's activity is conducted through two principal operating segments: the Issuance Segment, which handles cardholders and the Clearing Segment, which handles businesses.

The Issuance Segment

The clearer, 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.

As noted above, the Company issues and operates Isracard type credit cards (a private brand) and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

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, such as "Ashmoret" cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, membership cards for career military personnel, credit cards for members of the Israel Bar Association, and a range of other collaborations with various consumer clubs.

In addition, as of 2006, the Company issues cards that provide revolving credit (under the brand name **More**), allowing customers to determine the terms of repayment. The Company also operates various credit programs under the Isracredit plan and provides general purpose loans based on credit card credit lines.

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

The Company operates a loyalty program for cardholders and conducts large-scale marketing campaigns, including joint campaigns with leading entities in various sectors.

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., Mizrahi-Tefahot Bank 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.

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

The main income items associated with this segment are interchange fees, membership fees, operational fees, and deferred debit fees.

Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer.

The main expenses associated with this segment are customer recruitment, customer club advertising and management, issuance and delivery of cards and attachments, and production and delivery of debit statements.

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. In addition to clearing services, it offers businesses various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and joint sales promotion campaigns.

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

The main income item in the Clearing Segment is fees from businesses, net of interchange fees which are allocated to the Issuance Segment.

The main expenses associated with the Clearing Segment are recruitment and retention of businesses, joint advertising with businesses, clearing of sales slips, and production and delivery of credit statements.

Other

Includes all of the Company's other activities, each of which does not constitute a reportable segment.

Quantitative Data on Operating Segments:

	For the year ended December 31, 2006			
	Reported amounts, in NIS millions			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Profit and loss data:				
Income				
Fees from externals	835	172	-	1,007
Fees – intersegmental	(642)	642	-	-
Total	**193**	**814**	**-**	**1,007**
Profit from financing activity before provision for doubtful debts	14	36	3	53
Other income	1	2	13	16
Total income	**208**	**852**	**16**	**1,076**
Expenses				
Provision for doubtful debts	*-	4	-	4
Operating	121	201	4	326
Sales and marketing	24	118	-	142
General and administrative	14	29	-	43
Payments to banks	39	347	-	386
Total expenses	**198**	**699**	**4**	**901**
Operating profit before taxes	**10**	**153**	**12**	**175**
Provision for taxes on operating profit	3	48	4	55
Net operating profit after taxes	**7**	**105**	**8**	**120**
The Company's share in operating profits (losses) of equity-basis investee companies after tax effect	-	-	-*	-*
Net profit	**7**	**105**	**8**	**120**

* Amounts lower than NIS 0.5 million.

Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2006			
	Reported amounts, in NIS millions			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Additional Information				
Balance of assets	1,124	8,307	85	9,516
Of which: investments in equity-basis investee companies	-	-	-*	-
Balance of liabilities	8,599	182	31	8,812

* Amounts lower than NIS 0.5 million.

Isracard

Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2005			
	Reported amounts, in NIS millions			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Profit and loss data:				
Income				
Fees from externals	753	151	1	905
Fees – intersegmental	(574)	574	-	-
Total	**179**	**725**	**1**	**905**
Profit from financing activity before provision for doubtful debts	11	28	1	40
Other income	-	1	12	13
Total income	**190**	**754**	**14**	**958**
Expenses				
Provision for doubtful debts	(1)	1	-	-
Operating	107	169	3	279
Sales and marketing	19	87	-	106
General and administrative	17	34	-	51
Payments to banks	38	326	-	364
Total expenses	**180**	**617**	**3**	**800**
Operating profit before taxes	**10**	**137**	**11**	**158**
Provision for taxes on operating profit	3	47	4	54
Net operating profit after taxes	**7**	**90**	**7**	**104**
The Company's share in operating losses of equity-basis investee companies after tax effect	-	-	(2)	(2)
Net profit	**7**	**90**	**5**	**102**

Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2005			
	Reported amounts, in NIS millions			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Additional Information				
Balance of assets	745	7,843	88	8,676
Of which: investments in equity-basis investee companies	-	-	2	2
Balance of liabilities	7,861	213	18	8,092

Developments in Balance Sheet Items

The consolidated balance sheet as at December 31, 2006 totaled NIS 9,516 million, compared with NIS 8,676 million on December 31, 2005.

Set out below are the developments in the principal balance sheet items:

	December 31			
	2006	2005	Change	
	NIS millions		NIS millions	%
Total balance sheet	9,516	8,676	840	9.7
Debtors in respect of credit card activity	7,797	7,143	654	9.2
Cash on hand and deposits with banks	1,495	1,321	174	13.2
Creditors in respect of credit card activity	8,412	7,745	667	8.6
Shareholders' equity	704	584	120	20.5

Debtors in respect of credit card activity totaled NIS 7,797 million on December 31, 2006, compared with NIS 7,143 million at the end of 2005. This amount mainly includes sales slips in respect of transactions executed by cardholders and not yet repaid at the balance sheet date. The 9.2% increase resulted from an increase in the volumes of activity using the Company's credit cards.

Cash on hand and deposits with banks totaled NIS 1,495 million on December 31, 2006, compared with NIS 1,321 million at the end of 2005. The 13.2% increase mainly resulted from an increase in the Company's liquid means.

Buildings and equipment totaled NIS 159 million on December 31, 2006, similar to the balance on December 31, 2005.

Creditors in respect of credit card activity totaled NIS 8,412 million on December 31, 2006, compared with NIS 7,745 million at the end of 2005. This amount mainly includes balances to be paid to businesses where cardholders' transactions were executed but not yet repaid at the balance sheet date. The 8.6% increase resulted from an increase in the volumes of activity using the Company's credit cards.

Shareholders' equity totaled NIS 704 million on December 31, 2006, compared with NIS 584 million at the end of 2005. The 20.5% increase resulted from the Company's net profit in 2006.

The ratio of shareholders' equity to the balance sheet reached 7.4% on December 31, 2006, compared with 6.7% at the end of 2005.

The ratio of capital to risk components reached 29.6% on December 31, 2006, compared with 27.9% at the end of 2005. The minimum capital ratio required by the Bank of Israel is 9%.

Investee Companies

The Company has two subsidiaries:

Isracard Mimun Ltd.

Isracard (Nechasim) 1994 Ltd.

Isracard Mimun Ltd. (hereinafter: "Isracard Mimun") was established on January 15, 2004, and is a wholly owned and controlled subsidiary of the Company. The company provides credit to holders of credit cards in the Isracard Group and to holders of American Express cards. The company supplies cardholders with a credit line which they can use to execute transactions using the revolving credit method or in order to receive loans.

The balance of credit to cardholders was NIS 139 million on December 31, 2006, compared with NIS 37 million on December 31, 2005.

Isracard (Nechasim) 1994 Ltd. (hereinafter: "Isracard Nechasim") was established on November 22, 1994, and is a wholly owned and controlled subsidiary of the Company.

Isracard Nechasim is the joint owner with N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts of the ownership rights to a property located on Hamasger Street in Tel Aviv, where the Company's offices are situated, among other things.

Isracard Nechasim rents most of the property to Isracard, and the remainder of the property to Bank Hapoalim and subsidiaries of Bank Hapoalim.

Additional non-material activity conducted by Isracard Nechasim includes the management of funds in deposits in respect of proceeds from the sale of gift cards by Isracard, from the date on which the funds are received until the date of payment to the business.

The balance of the investment in Isracard Nechasim was NIS 91 million on December 31, 2006, and its contribution to profit totaled NIS 5 million in 2006.

Equity-Basis Investee Company

Tzameret Mimunim Ltd. – The Company holds a 19% stake, while the remaining shares are held by Poalim Nechasim (Menayot) Ltd., which is wholly owned by Bank Hapoalim B.M.

Tzameret Mimunim is engaged in discount transactions in credit card sales slips; it provides financing services to businesses by purchasing, from the business, sales slips of credit card transactions executed with the business and undertaking its rights to receive the amounts of the sales slips. As part of the services offered by Tzameret Mimunim to the businesses with which it has agreements, it repays such transaction amounts to the businesses (net of a fee) earlier than the date at which the business would be entitled to receive the consideration for those sales slips from the clearing company.

The balance of the investment in Tzameret Mimunim was NIS 13 million on December 31, 2006, and its contribution to profit totaled an amount lower than NIS 0.5 million in 2006.

Antitrust Issues and Recommendations for Additional Regulation

In May 2005, the Antitrust Commissioner (hereinafter: the "Commissioner") declared the Company a holder of a monopoly in clearing Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes it has strong arguments against the aforesaid declaration of monopoly, and the Company has appealed to the court against the declaration. In any case, the Commissioner's aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below.

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

- A directive instructing the Company to allow local clearing of MasterCard credit cards by additional clearers, as well as Isracard cards (the brand owned by the Company), subject to compliance with the license terms specified by the Commissioner, as described below.
- A directive instructing the Company to sign a "domestic agreement" regulating the interaction between clearers and issuers for the purposes of clearing in Israel of the aforesaid cards, under temporary interchange fee terms (the fee paid by clearers of credit card transactions to the credit card issuers), as approved by the Antitrust Tribunal for other clearers, and a permanent interchange fee, to be approved, for the clearing of the aforesaid cards, and for clearing by the Company of Visa cards issued by the other clearers.

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

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

Based on the opinion of its legal advisors, the Company believes it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner.

Following talks held between the Company, the credit card companies Leumi Card Ltd. and Cartisei Ashrai LeIsrael Ltd. (the three companies jointly, hereinafter: the "Credit Card Companies"), and the Commissioner, the Credit Card Companies reached an arrangement among themselves (hereinafter: the "Arrangement"), with the Commissioner's support, under which the Credit Card Companies will enter into a detailed domestic agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface, of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a binding arrangement from the Antitrust Tribunal. The Credit Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim B.M., Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a binding agreement with the Tribunal on October 30, 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. On October 31, 2006, the Tribunal granted provisional approval to the Arrangement, until a decision is reached, through a temporary permit.

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

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in clearing Isracard and

MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the Arrangement by the Tribunal and the execution of cross-clearing of transactions through the technical interface.

The Company cannot estimate whether or when the request for permanent approval of the Arrangement will be granted. At this stage, the Company is preparing for implementation of the Arrangement starting in June 2007, according to the provisional permit granted by the Tribunal, as described above.

A report by an 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 the possible materialization of any of the following factors: large-scale clearing of transactions in MasterCard cards by additional clearers other than the Company; implementation of the Arrangement and its terms, including reduction of the interchange fee or equalization of clearing fees in Isracard cards to those of MasterCard cards; the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof; or 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, including in brands owned and operated by the Company, may influence the Company’s course of action and may have a material adverse effect on the Company’s financial results in the future; however, the Company cannot estimate the extent of such an effect.

See also Note 17B to the financial statements and the auditors’ report.

Legal Claims

Several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 16 million (excluding the claim detailed below). The Company estimates that the chances of acceptance of the claimants' arguments are low; therefore, no provision was made in respect of these claims.

On February 25, 2004, a claim and a petition to certify the claim as a class action under the Banking (Service to Customers) Law, 5741-1981, were filed with the District Court of Tel Aviv against the Company. The amount of the class action suit stipulated in the claim statement is NIS 192.45 million, while the amount of the personal claim is NIS 328.30.

The claimant, who is the holder of a credit card issued to her by the Company, alleges that the Company began charging two new fees, a deferred debit fee and an operating fee, without legal and/or contractual grounds and in violation of the Banking Law, 5741-1981. The claimant has petitioned to represent holders of credit cards issued by the Company who were charged the new fees.

The remedy which the claimant has requested from the court is to direct the Company to cease charging the aforesaid fees and to refund the amounts of the fees charged until the date on which the claim was filed.

The court denied the petition to certify the claim as a class action and the claim itself in July 2006.

In the second half of October 2006, an appeal of the District Court's ruling was filed with the Supreme Court. In the opinion of the Company's legal advisors, the chances of the appeal are remote.

Contingent Liabilities

1. At the balance sheet date, guarantees provided by the Company exist in the amount of approximately NIS 3 million.

2. **Indemnification of Directors**

   The Company has undertaken a commitment to indemnify directors of the Company. The aggregate amount of the indemnification to be provided under the obligation to all directors of the Company in respect of one or more indemnification events shall not exceed 30% (thirty percent) of its shareholders' equity according to its financial statements as at June 30, 2004 (which stood at a total of NIS 440 million).

Agreements with Sister Companies

The Company has agreements with Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Aminit Ltd., which are sister companies (hereinafter: the "Sister Companies"), for the operation of their credit card systems.

The Company operates the issuing and clearing activity of their credit cards as well as the clearing of transactions executed in Israel using cards issued abroad.

The Sister Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of the arrangement.

Agreements with Banking Corporations

General

The Company has agreements with the banks listed below with regard to the registration of customers for the Company's credit card arrangements:

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 Poaley Agudat Israel Ltd., First International Bank of Israel Ltd., and Mizrahi-Tefahot Bank Ltd ("mizrahi-Tefahot Bank") (together – "Banks Under Arrangement").

Within the agreements with the Banks Under Arrangement, each bank was granted the authority to determine which customers are found suitable to join the Company's credit card arrangement, and to recommend that the Company register such customers for the credit card arrangement. Each bank is responsible for honoring all sales slips and debits executed by its customers on the day of presentation of the sales slips or debits to the bank. Furthermore, each bank is responsible for any damage caused as a result of the loss, theft, or cancellation of a credit card used by an unauthorized party. The bank's responsibility for such damages expires after a certain period.

Formula for Distribution of the Company's Surplus of Income over Expenses (the Distribution Formula)

The agreements with the Banks Under Arrangement, excluding mizrahi-Tefahot Bank (with regard to the arrangement with mizrahi-Tefahot Bank, see below), stipulate a distribution formula (the "Distribution Formula") regarding each bank's entitlement to the Company's surplus of income over expenses. According to the Distribution Formula, each bank participates in the Company's surplus of income over current expenses in respect of the company's credit cards.

Each bank's participation rate in the surplus of income over expenses, after the distribution of membership fees, operating fees, and deferred debit fees, is based on the ratio of the turnover arising from transactions by customers of that bank to the overall turnover of the Company's customers (the "Turnover Ratio"). Account settlement is performed on a quarterly basis.

Within the agreements with the Banks Under Arrangement, each bank has undertaken an obligation to pay the Company monthly royalties, which are a certain percentage of the turnover of customers' transactions in respect of debits during the course of the month and a certain percentage of the periodic membership fees, according to the rate list. At the date of distribution of the surplus of income over expenses, each bank is also credited for income from membership fees collected from its customers. The agreements further stipulate that income in respect of operating fees and deferred debit fees collected from customers shall be divided between the banks and the Company (each bank in respect of its own customers).

Arrangement with Mizrahi-Tefahot Bank Regarding the Distribution Formula

Several years ago, an amended agreement was signed between mizrahi-Tefahot Bank and the Company (the "Amended Agreement"). Until that time, the arrangement described above applied between the Company and mizrahi-Tefahot Bank.

With regard to the Distribution Formula, it was established that mizrahi-Tefahot Bank would be credited for a certain percentage of the membership fees actually collected from its customers. In addition, mizrahi-Tefahot Bank shall be entitled, under certain conditions, to receive a supplement to the amounts owed to it by the Company, according to the aforesaid Distribution Formula, up to a total equal to a certain percentage of the turnover of transactions by its customers using the Company's credit cards.

In addition, mizrahi-Tefahot Bank was granted the right to notify the Company of the cancellation of these provisions of the Amended Agreement and the reinstatement of the provisions of the Distribution Formula as stipulated in the agreements with the other Banks Under Arrangement (as in effect at the date of cancellation).

Mizrahi-Tefahot Bank, which distributes credit cards of the Company and of others to its customers, has addressed a request to the credit card companies, including the Company, to submit proposals for the operation of a branded credit card for the bank. The Company has submitted a proposal and is conducting negotiations with mizrahi-Tefahot Bank, which have yet to be concluded.

Human Resources

Personnel

The total number of positions includes, in addition to employees of the Company, employees on loan from Bank Hapoalim and external personnel.

In 2006, the number of positions increased by 84 in comparison to the number of positions at the end of 2005, as a result of the expansion of the Company's activity.

	2006	2005
Average number of positions on a monthly basis*	905	801
Total positions at year end*	926	842

* The calculation of the number of positions takes into account overtime for which overtime wages are paid according to specific reports (rather than on a global basis).

The increase in the total number of positions resulted from several factors:

- Expansion of the activity of the call centers and support for achievement of service objectives.
- Expansion of activity in existing areas.
- Entrance into new areas of activity in products and services (loans, **More** cards).

Key Activities

In light of the growth trend in the economy and the continued resurgence in the labor market, the Company has implemented an employee retention policy expressed through several modes of action:

- Rational salary policy.
- Creation of opportunities for promotion, study, individual development, and internal mobility.
- Cultivation of employees' relationship and identification with the Company.

In general, the state of employment within the Group is strong. This strength is influenced by a combination of several factors: atmosphere, communication between managers and employees, and investment in employee cultivation and welfare.

Employee Opinion Survey

The Company carried out a satisfaction survey in 2006. The survey indicated a high overall level of employee satisfaction. Employees expressed a very high sense of loyalty and strong feelings of belonging, identification, and pride. Most employees also expressed a high level of willingness to continue to work for the Company.

Social Involvement and Contribution to the Community

As the leading company in the area of credit cards in Israel, Isracard views itself as committed to proactive, leading involvement in activity for the benefit of the community.

In 2006, activity for the community was expanded and employees' awareness of this subject grew.

Particularly notable were the following activities:

- Adoption of the Nahal Patrol Regiment as part of the Friends of the IDF Association's Adopt a Soldier project, implemented through annual monetary donations for various activities for the welfare of the regiment's troops as well as joint activities with the Company's employees.
- During the war in northern Israel, Isracard and its employees carried out extensive aid activities for residents of the northern region and for IDF soldiers in the conflict zone.
- Fundraising activity for the "Matan" organization among employees and management.
- "A Loving Hug for the Children of Sderot."
- Donations and aid to children in need.

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 Europay (Eurocard) Israel 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 11 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., Europay (Eurocard) Israel 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 Europay (Eurocard) Israel 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: Europay (Eurocard) Israel 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.; Europay (Eurocard) Israel 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.; Europay (Eurocard) Israel Ltd.; Poalim Express Ltd.; MTM – Scientific Industries Center Haifa Ltd.; Member of the Advisory Council to the Bank of Israel.
Ron Weksler	Head of E-Banking and Business Development Division at Bank Hapoalim B.M. Member of the boards of directors of the following companies: Europay (Eurocard) Israel Ltd.; MyBills Ltd.
Eldad Kahana	Attorney at Bank Hapoalim B.M. Member of the boards of directors of the following companies: Europay (Eurocard) Israel 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 boards of directors of the following companies: Europay (Eurocard) Israel 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 boards of directors of the following companies: Europay (Eurocard) Israel 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	Sharon Regional Manager at Bank Hapoalim B.M. Member of the boards of directors of the following companies: Europay (Eurocard) Israel Ltd.; Paz D.A. Investments.
Dafna Pelli	Director of companies. Member of the boards of directors of the following companies: Europay (Eurocard) Israel Ltd.; Bank Otsar Hahayal Ltd.; Member of the 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 boards of directors of the following companies: Europay (Eurocard) Israel 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	Chief Executive Officer of the following companies: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminit Ltd.; Poalim Express Ltd. (as of March 27, 2006).(2) Chairman of the boards of directors of the following companies: Tzameret Mimunim Ltd.; Isracard (Nechasim) 1994 Ltd.; Isracard Mimun Ltd. Member of the boards of directors of the following companies: Europay (Eurocard) Israel 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 (CFO).

	Member of the boards of directors of the following companies: Europay (Eurocard) Israel 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: Europay (Eurocard) Israel 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 and Methods
Ami Alpan	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

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the Year Ended December 31, 2006

Table of Contents

Somekh Chaikin

Auditors' Report to the Shareholders of Isracard

We have audited the accompanying consolidated financial statements of Isracard Ltd. (hereinafter: "the Company") and its subsidiaries: 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, and cash flows for the year 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, and cash flows for the year 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.

Without qualifying our opinion, we draw attention to Note 17.B Regarding Antitrust issues and Recommendations for Additional Regulation.

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

Tel-Aviv, March 12, 2007

Consolidated Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	**2006**	**2005**
Assets			
Cash on hand and deposits with banks	3	1,495	1,321
Debtors in respect of credit card activity	4	7,797	7,143
Securities	6	12	12
Investments in equity-basis investee companies	7	13	3
Buildings and equipment	8	159	155
Other assets	9	40	42
Total assets		**9,516**	**8,676**
Liabilities			
Credit from banking corporations	10	4	4
Creditors in respect of credit card activity	11	8,412	7,745
Other liabilities	12	396	343
Total liabilities		**8,812**	**8,092**
Contingent liabilities and special agreements	17	-	-
Shareholders' equity	13	704	584
Total liabilities and capital		**9,516**	**8,676**

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

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

Tel Aviv, March 12, 2007

Consolidated Statements of Profit and Loss

Reported amounts

In NIS millions

		For the year ended December 31	
	Note	2006	2005
Income			
From credit card transactions	20	1,007	905
Profit from financing activities before provision for doubtful debts	21	53	40
Others	22	16	13
Total income		**1,076**	**958**
Expenses			
Provision for doubtful debts	5	4	*-
Operating	23	326	279
Sales and marketing	24	142	106
General and administrative	25	43	51
Payments to banks	17G	386	364
Total expenses		**901**	**800**
Operating profit before taxes		175	158
Provision for taxes on operating profit	26	55	54
Operating profit after taxes		**120**	**104**
Share in net, after tax operating profits (losses) of equity-basis investees		*-	(2)
Net profit		**120**	**102**
Net profit per common share (in NIS)		167	142
Number of common shares used in calculation		720,000	720,000

* Amounts lower than NIS 0.5 million.

The accompanying notes are an integral part of the financial statements

Reports on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	Share capital	Other capital reserves	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained Earnings	Total shareholders' equity
Balance as at January 1, 2005	***-**	**1**	**1**	**-**	**481**	**482**
Net profit	-	-	-	-	102	102
Options granted to employees	-	*-	*-	-	-	*-
Adjustments in respect of presentation of securities available for sale at fair value, net	-	-	-	*-	-	*-
Balance as at December 31, 2005	***-**	**1**	**1**	***-**	**583**	**584**
Net profit	-	-	-	-	120	120
Options granted to employees	-	*-	*-	-	-	*-
Adjustments in respect of presentation of securities available for sale at fair value, net	-	-	-	*-	-	*-
Balance as at December 31, 2006	***-**	**1**	**1**	***-**	**703**	**704**

* Amounts lower than NIS 0.5 million.

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31, 2006
Cash flows from operating activity	
Net profit for the year	120
Adjustments to reconcile net profit to net cash generated by operating activities:	
Depreciation of buildings and equipment	23
Provision for doubtful debts	4
Deferred Taxes, Net	*-
Revaluation of deposits with banking corporations	(5)
Decrease in other assets	3
Increase in other liabilities	52
Net cash from operating activity	**197**
Cash flows used in activity in assets	
Deposits with banks	(300)
Withdrawal of deposits from banks	312
Credit to cardholders and businesses, net	(107)
Increase in other debtors in respect of credit card activity, net	(551)
Acquisition of buildings and equipment	(27)
Capital note from investee company	(10)
Net cash to activity in assets	**(683)**
Cash flows from activity in liabilities and capital	
Increase in creditors in respect of credit card activity, net	667
Net cash from activity in liabilities and capital	**667**
Increase in cash and cash equivalents	**181**
Balance of cash and cash equivalents at beginning of year	**1,047**
Balance of cash and cash equivalents at end of year	**1,228**

* Amounts lower than NIS 0.5 million.

Note 1 – General

A. Isracard Ltd. (hereinafter: the "Company") was established in 1975 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 primarily engaged in issuing and clearing Isracard and MasterCard brand credit card transactions, as well as operating the credit card systems of its Sister companies: Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Aminit Ltd.

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 29 presents the Company's condensed financial statements, including the balance sheet and the statement of profit and loss. 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 Group – The Company and its consolidated companies.
2. The parent company – Bank Hapoalim B.M.
3. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
4. Equity-basis investee company – A company, other than a consolidated company, the Company's investment in which is included in the Company's statements based on the equity method.
5. Investee Company – A consolidated company or an equity-basis investee company.
6. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel.
7. Interested parties – As defined in Paragraph (1) of the definition of an "interested party" of a corporation in Section 1 of the Securities Law.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

8. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in the Financial Statements), 5756-1996.
9. CPI – The consumer price index published by the Central Bureau of Statistics.
10. USD – United States dollar.
11. 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.
12. Reported amount – Amount adjusted to the transition date (December 31, 2003), with the addition of amounts in nominal values added subsequent to the transition date, and subtracting amounts deducted subsequent to the transition date.
13. Adjusted financial reporting – Financial reporting based on the directives of Opinion Statements No. 23, 34, 36, 37, and 50.
14. 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 the 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 29 includes a summary of the Company's data in nominal historical values).
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.

Note 2 – Significant Accounting Policies (cont.)

B. Financial Statements in Reported Amounts (cont.)

5. Balance sheets:

   Non-monetary items are presented in reported amounts.

   Monetary items are presented in the balance sheet at nominal historical values as at the balance sheet date. With regard to the presentation of securities, see Section D below.

6. Statements of profit and loss:

   Income and expenses due to 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.

C. Consolidation of the Financial Statements and Application of the Equity Method

1. Principles of consolidation:

   The consolidated financial statements include the financial statements of the Company as well as the financial statements of companies under its control.

   Balances and transactions between consolidated companies were eliminated in the consolidated financial statements.

2. Investment in shares of an equity-basis investee – Included according to the equity method, based on the audited financial statements of that company.

   With regard to decline in value of investments, see (K) below.

D. Securities

Securities held by the Company are classified by the Company as securities available for sale. Accordingly, the securities are presented in the balance sheet at fair value, a part from shares and options for purchasing of shares, for which no fair value is available, which are presented at cost. Unrealized profits or losses from adjustment to the fair value net of tax effect are recorded directly in a separate shareholders' equity item, and are transferred to the statement of profit and loss upon sale or redemption. A provision for a permanent decline in value is deducted from the balance sheet balance, and recorded to the statement of profit and loss.

Note 2 – Significant Accounting Policies (cont.)

E. Debtors and Creditors in Respect of Credit Card Transactions

Upon capture of a credit card transaction, the Company includes, in its balance sheet, the debt of the cardholder, if it is the issuing company, or the debt of another issuing company, against a liability to pay the business. If the business does not receive clearing services from the Company, the Company records a liability to pay another clearing company.

F. Extinguishment of Liabilities and Offsetting Financial Instruments

1. Advance payments to businesses, which upon payment release the liability between the Company and the business, or the payment of which legally releases the Company from its liability to the business, constitute extinguishment of the liability to the business; therefore, such liability is not included in the balance sheet, in accordance with the directives of the American standard FAS-140.
2. Assets and liabilities are offset when there is an enforceable legal right and intention to offset at the time of repayment of the amounts. Accordingly, advance payments to businesses that do not fulfill the conditions for extinguishment of a liability, as noted above, are offset against liabilities to the businesses, provided that they comply with the terms for offsetting.

G. Provision for Doubtful Debts

The financial statements include specific provision for doubtful debts that adequately reflect, according to management's estimates, the loss inherent in debts whose collection is in doubt. In determining the adequacy of the provisions, the management takes into account, inter alia, risk assessments based on the information available to it with regard to debtors' financial position, the volume of their activity, evaluation of collateral received from them, and past experience. Doubtful debts which management believes there is no chance of collecting are written off, according to management's decision.

The financial statements also include a collective provision for doubtful debts, calculated based on past experience, in respect of debts not yet identified as contain risk characteristics for which a specific provision is necessary.

H. Provisions for Damages from Abuse of credit cards

The financial statements include provisions for damages arising from abuse of credit cards, such as damages caused by forgery and theft, which are included upon discovery of suspected abuse of a credit card. The amounts of the provisions are determined specifically against specific damages.

Note 2 – Significant Accounting Policies (cont.)

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

The financial statements include a provision for gift campaigns (Stars) for cardholders. In determining the adequacy of the provision, management is basing on past experience, in order to estimate the future rate of utilization of Stars accumulated by cardholders, and the forecast cost per star, as updated from time to time.

J. Buildings and Equipment

1. Buildings and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the "straight-line method" over the estimated useful lives of the assets.

2. Annual depreciation rates:

	%
Buildings and land	0-2
Computers and peripheral equipment	20-33
Software costs	25
Furniture and office equipment	6-20
Vehicles	15
Other equipment	6-33

Installations and improvements to rental properties are depreciated over the course of the rental period that does not exceed the economic life span of the business.

3. Costs of the development of software for internal use are handled according to the Statement of Position of the American Institute of Certified Public Accountants, SOP 98-1. Costs of the development of software for internal use are capitalized after completion of the preliminary planning stage, when the expectation is that the project will be completed and the software will be used to fulfill its intended objectives. Capitalization is terminated when the software is essentially completed and ready for its intended use. Capitalized software development costs are depreciated using the "straight-line method" based on the estimated useful life of the software.

Note 2 – Significant Accounting Policies (cont.)

K. 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 consolidated 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 consolidated balance sheet, with the exception of tax assets and monetary assets (excluding monetary assets that are investments in investee companies that are not subsidiaries). The Standard further stipulates rules for presentation and disclosure with regard to impaired assets. When the value of an asset in the consolidated balance sheet exceeds its recoverable amount, the Company recognizes a loss from decline in value 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.

In September 2003, the Israel Accounting Standards Board published Clarification No. 1 regarding the accounting treatment of impairment of investments in investee companies that are not subsidiaries (hereinafter: the “Clarification”). The Clarification stipulates that in the reporting period subsequent to the period in which a provision for impairment in respect of an investee company that is not a subsidiary was made for the first time, the investment in the investee company should be stated at the lower of the recoverable amount and the calculation of the investment using the equity method, with the recoverable amount to be calculated in every reporting period in which there are signs that a change has occurred in the recoverable amount. Losses from impairment of investment in an investee company that is not a subsidiary which were recognized or cancelled during the period are included under the Company’s share in profits (losses) of equity-basis investees.

In February 2005, the Israel Accounting Standards Board issued Clarification No. 6 regarding the accounting treatment of impairment of assets of an investee company that is not a subsidiary. The clarification requires determination of the recoverable amount for each cash-generating unit or identified asset of the equity-basis investee company for which there are signs indicating impairment or signs indicating that a loss from impairment recognized in previous years no longer exists or has decreased. Impairment or increase in value shall be examined from the perspective of the holding company.

L. Taxes on Income

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

Balances of deferred taxes (asset or liability) are calculated according to the method of liability based on the tax rates that will apply at the time of utilization of the deferred taxes or at the time of exercise of the tax benefits, as known near the date of approval of the financial statements. The main reasons for which no deferred taxes were calculated are the following:

(A) Investments in investee companies, due to the fact that the Company intends to hold these investments and does not plan to realize them.

(B) A tax benefit receivable in respect of timing differences, where the possibility of exercising the benefit is in doubt.

Note 2 – Significant Accounting Policies (cont.)

M. Share-Based Payments

The CEO of the Company and several of its employees have been granted options exercisable into shares of the parent company as well as rights to receive cash payments based on increases in the share price of the parent company on the stock market (phantom options).

As of January 1, 2006, the Company has implemented Accounting Standard No. 24, "Share-Based Payment" (hereinafter: the "Standard"). Under the directives of the Standard, the Company recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties settled in capital instruments, in cash, or in other assets. Share-based payment transactions in which goods or services are received in consideration for the payment are recorded at fair value.

With regard to transactions settled in capital instruments, the Standard applies to allocations performed after March 15, 2005, but not yet vested by January 1, 2006. The Standard similarly applies to changes in the terms of transactions settled in capital instruments and executed after March 15, 2005, even if the allocations in respect of which the changes were executed occurred prior to that date. The Standard also applies to liabilities arising from share-based payment transactions existing on January 1, 2006.

The Company records the benefit created by the allocation of option notes to employees as a salary expense, with a corresponding increase in shareholders' equity, according to the fair value of the options at the allocation date, using the **Black & Scholes** model. In accordance with this policy, the benefit generated is spread over the vesting period of the option notes, based on the Company's estimates regarding the number of options expected to vest, other than forfeitures resulting from noncompliance with market conditions.

Liabilities to employees in respect of rights to increases in the value of shares in cash (phantom options) are measured for the first time at the date of allocation and subsequently at each reporting date until the liability is extinguished, at the fair value of the rights to the increase in the value of shares, using the Black & Scholes model. Changes in the fair value of these liabilities are recognized in the statement of profit and loss for the period, over the vesting period of the rights to the increase in the value of shares.

Standard 24 was implemented by restatement of comparison data for previous periods. The effect of the first-time implementation on data for previous periods is not material.

Note 2 – Significant Accounting Policies (cont.)

N. Employee Rights

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

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

O. Contingent Liabilities

A provision for claims is required in the financial statements, according to management's estimates and based on the opinions of its legal advisors. Note 17 addresses claims pending against the Company. The disclosure is in the format set forth in the directives of the Supervisor of Banks, so that the claims filed against the Company are classified into three risk groups.

1. Expected probable risk – the probability of some loss in the claim is over 70%, and a provision for the amount at risk is included in the financial statements.
2. Reasonably possible risk – the probability of some loss in the claim is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group.
3. Remote risk – the probability of any loss in the claim is under 20%. No provision is included in the financial statements in respect of claims in this risk group.

P. Revenue recognition

1. Income from clearing fees is included in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the businesses, income is allocated as a separate transaction for each payment.
2. The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board regarding "Reporting Income on a Gross Basis or a Net Basis," and accordingly presents income from clearing fees on a gross basis, while fees to other issuers are presented under expense items.
3. Income from membership fees, operating fees, and deferred debit fees collected from cardholders are included in the statement of profit and loss on a cumulative basis.

Note 2 – Significant Accounting Policies (cont.)

4. Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears which are classified as non-income bearing debts; such interest is allocated to the statement of profit and loss, based on actual collection.
5. Securities – see Section D above.

Q. Earnings Per Share

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

R. Segmental Reporting

Segmental reporting is presented in accordance with the directives of the Supervisor of Banks – see also Note 27.

S. Statement of Cash Flows

Cash flows are presented net, except from changes in non-monetary items, deposits with banking corporations, and securities. The consolidated statement of cash flows for the year ended on December 31, 2006 does not include comparison data.

T. 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.

U. 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.

Note 2 – Significant Accounting Policies (cont.)

U. Foreign Currency and Linkage (cont.)

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 1 USD)	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

V. 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 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.

Note 2 – Significant Accounting Policies (cont.)

V. Disclosure of the Effect of New Accounting Standards in the Period Before their Implementation (cont.)

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 September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" (hereinafter: the "Standard"). The Standard sets forth rules for the recognition, measurement, and subtraction of fixed asset items, and the disclosure required in respect thereto. The Standard stipulates, inter alia, that when recognizing a fixed asset item for the first time, the entity must estimate and include as part of the cost of the item the costs that it will incur as a result of the obligation to dismantle and transfer the item and restore the space in which it is located. The Standard further stipulates that a group of similar fixed asset items shall be measured at cost, deducting cumulative depreciation, and deducting losses from decline in value; or alternatively, at a revalued amount, deducting cumulative depreciation, while an increase in the value of the asset as a result of revaluation beyond the initial cost shall be allocated directly to shareholders' equity, under the revaluation fund item. Any part of a fixed asset with a significant cost relative to the total cost of the item shall be depreciated separately, including costs of significant periodic tests. The Standard further stipulates that a fixed asset item acquired in return for another non-monetary item within a transaction of a commercial nature shall be measured at fair value.

   The Standard will apply to financial statements for periods starting January 1, 2007. An entity choosing to use the revaluation method to measure fixed assets for the first time on January 1, 2007 shall recognize, on that date, in the revaluation fund, the amount of the difference between the revalued amount of the asset at that date and its book cost. Furthermore, an entity that did not previously include the initial estimate of the costs of dismantling and transfer of the item and of restoring the space in which it was located in the cost of fixed assets at first recognition shall be required to:

   (A) Measure the aforesaid liability as at January 1, 2007, according to generally accepted accounting principles;

   (B) Calculate the amount that would have been included in the cost of the relevant asset at the date when the liability first arose, by capitalizing the amount of the liability described in Section (A) above for the date when the liability first arose (hereinafter: the "Capitalized Amount"). Capitalization of the liability shall be performed using the best estimate of historical capitalization rates, adjusted to the risk relevant to that liability during the elapsed period;

Note 2 – Significant Accounting Policies (cont.)

V. Disclosure of the Effect of New Accounting Standards in the Period Before their Implementation (cont.)

(C) Calculate the depreciation accrued on the capitalized amount as at January 1, 2007, based on the period of the asset's useful life as at that date;

(D) The difference between the amount allocated to the asset according to Sections (B) and (C) above and the amount of the liability according to Section (A) above shall be allocated to surpluses.

With the exception of the above, the Standard will be adopted by retroactive implementation.

As of the date of publication of the financial statements, the Supervisor of Banks has not yet published directives regarding the manner of adoption of the Standard by credit card companies, if at all.

3. 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 the 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 balance 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 shareholder."

   The Standard addresses three issues related to transactions between an entity and its controlling shareholder: 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 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Cash on hand	46	87
Deposits with banks for an original term of up to 3 months	1,182	960
Total cash and cash equivalents	**1,228**	**1,047**
Other deposits with banks	267	274
Total	**1,495**	**1,321**

Note 4 – Debtors in Respect of Credit Cards Activity

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Debtors in respect of credit cards (1) (3)	7,654	7,113
Credit to cardholders (2) (3)	143	37
Credit to businesses	6	5
Total	**7,803**	**7,155**
Less: Provision for doubtful debts	(21)	(17)
Total debtors and credit to cardholders and businesses	**7,782**	**7,138**
International credit cards organization	14	5
Income receivable	1	-
Total debtors in respect of credit cards activity	**7,797**	**7,143**
(1) Of which, guaranteed by banks	7,424	6,865
(2) Of which, guaranteed by banks	38	22

(3) Debtors in respect of credit cards – non interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the business, and other transactions. Credit to cardholders – interest bearing including credit transactions, revolving credit transactions, direct credit, and other transactions.

Note 5 – Provision for Doubtful Debts

Reported amounts

In NIS millions

	Specific provision**	Provision on collective basis	Total
Balance of provision as at January 1, 2005	**17**	**-**	**17**
Net provisions for 2005	*-	-	*-
Balance of provision as at December 31, 2005	**17**	**-**	**17**
Net provisions for 2006	3	1	4
Balance of provision as at December 31, 2006	**20**	**1**	**21**

* Amount lower than NIS 0.5 million.

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

Note 6 – Securities

Reported amounts

In NIS millions

	December 31, 2006			
	Balance sheet value	**Depreciated cost (in shares – cost)**	**Profits not yet recognized from adjustments to fair value**	**Fair value**
Securities available for sale:				
Shares of others**	**12**	**12**	***-**	**12**

	December 31, 2005			
	Balance sheet value	**Depreciated cost (in shares – cost)**	**Profits not yet recognized from adjustments to fair value**	**Fair value**
Securities available for sale:				
Shares of others**	**12**	**12**	***-**	**12**

* Included in shareholders' equity under the item "Adjustments for presentation of securities available for sale at fair value," in an amount lower than NIS 0.5 million.

** Includes shares for which no fair value is available, which are presented at cost, in the amount of NIS 11 million.

Note 7 – Investments in Equity-Basis Investees

Reported amounts

In NIS millions

	December 31	
	2006	2005
A. Composition of item:		
Investments in shares by equity method	13	3
Of which – losses accrued since acquisition date	(3)	(3)

B. Details of principal investee companies:

	2006			
	Share in capital granting the right to receive profits	Share in voting rights	Investment in shares by equity method	Contribution to net operating profit
	%	%	In NIS millions	
Isracard Mimun Ltd.	100	100	*-	(1)
Isracard (Nechasim) 1994 Ltd.	100	100	**28	5

	2005			
	Share in capital granting the right to receive profits	Share in voting rights	Investment in shares by equity method	Contribution to net operating profit
	%	%	In NIS millions	
Isracard Mimun Ltd.	100	100	*-	*-
Isracard (Nechasim) 1994 Ltd.	100	100	**36	5

* Amount lower than NIS 0.5 million.

** Includes an investment in capital notes in the amount of NIS 28 million as at December 31, 2006 (2005: NIS 36 million).

Note 8 – Buildings and Equipment

Reported amounts

In NIS millions

A. Composition:

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Others	Total
Cost:								
As at January 1, 2006	69	56	130	27	1	27	2	312
Additions	-*	*-	21	5	*-	1	-	27
As at December 31, 2006	**69**	**56**	**151**	**32**	**1**	**28**	**2**	**339**
Accrued depreciation:								
As at January 1, 2006	7	20	101	11	*-	18	-	157
Additions	1	2	18	1	*-	1	-	23
As at December 31, 2006	**8**	**22**	**119**	**12**	***-**	**19**	**-**	**180**
Depreciated balance as at December 31, 2006	**61**	**34**	**32**	**20**	**1**	**9**	**2**	**159**
Depreciated balance as at December 31, 2005	**62**	**36**	**29**	**16**	**1**	**9**	**2**	**155**
Average weighted depreciation rate in 2006:	1.3	4.9	24.7	23.5	15.0	10.1	-	
Average weighted deprecation rate in 2005:	1.3	4.9	25.4	21.8	15.0	10.1	-	

* Amount lower than NIS 0.5 million.

(1) Includes capitalized software costs.

B. Buildings in the amount of NIS 22 million are not used by the Company and its consolidated companies.

Note 9 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Deferred taxes receivable, net (see Note 26)	**9**	**8**
Other debtors and debit balances:		
Surplus of advance income tax payments over current provisions	7	0
Loans to employees	3	2
Prepaid expenses	11	13
Related companies	9	18
Others	1	1
Total other debtors and debit balances	31	34
Total other assets	**40**	**42**

Note 10 – Credit from Banking Corporations

	2006		December 31	
	Average annual interest rate		2006	2005
	For total balance	For transactions in the last month	Reported amounts in NIS millions	
Credit in current drawing accounts	**8.03**	**7.68**	**4**	**4**

Note 11 – Creditors in Respect of Credit Cards Activity

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Businesses (1)	8,257	7,612
Liabilities in respect of deposits	5	6
Prepaid income	1	1
Expenses payable (2)	66	47
Others	83	79
Total creditors in respect of credit cards activity	**8,412**	**7,745**

(1) Net of balances of advance payments to businesses in the amount of NIS 70 million (2005: NIS 122 million).

(2) Of which, a provision for Royalty program (stars) in the amount of NIS 39 million (2005: NIS 34 million).

Note 12 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2006	**2005**
Provision for deferred taxes, net (see Note 26)	4	3
Surplus of provision for severance pay, retirement pay, and pensions over amount funded (see Note 14)	11	11
Other creditors and credit balances:		
Expenses payable in respect of salaries and related expenses	38	38
Suppliers	34	31
Expenses payable	36	36
Institutions	11	11
Europay (Eurocard) Israel Ltd. (related party)	247	197
Others	15	16
Total other creditors and credit balances	381	329
Total other liabilities	**396**	**343**

Note 13 – Shareholders' Equity

A. Composition (identical on December 31, 2005):

	December 31,2006	
	Registered	**Issued and paid-up**
	In NIS	
Common shares of NIS 0.0001	100	72
Special share of NIS 0.0001 (1)	-	-
	100	**72**

(1) One share registered, issued, and paid-up.

B. Shares rights:

The special share grants its holder the following rights, in addition to the right to receive invitations to and participate and vote in the Company's general meetings:

(A) In every general meeting of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

Note 13 – Shareholders' Equity (cont.)

Reported amounts

In NIS millions

C. Capital Adequacy According to the Supervisor of Banks' Requirements

	December 31, 2006		December 31, 2005	
	Balances	**Risk balances**	**Balances**	**Risk balances**
1. Capital for the purpose of calculating the capital ratio:				
Tier 1 capital	704	-	584	-
2. Weighted risk balances:				
Credit risk				
Assets:				
Cash on hand and deposits with banks	1,495	299	1,321	264
Debtors in respect of credit cards activity	7,797	1,829	7,143	1,591
Securities	12	12	12	12
Investments	13	13	3	3
Buildings and equipment	159	159	155	155
Other assets	40	32	42	42
Total assets	9,516	2,344	8,676	2,067
Market risk	-	32	-	29
Total risk assets	**9,516**	**2,376**	**8,676**	**2,096**
3. Ratio of capital to risk components:	**In %**		**In %**	
Ratio of Tier 1 capital to risk components	29.6		27.9	
Ratio of total capital to risk components	29.6		27.9	
Ratio of minimum total capital required by the Supervisor of Banks	9		9	

Note 14 – Employees Rights

A. Retirement Compensation and Pension

(1) General

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

(2) Personal Contracts – Chairman of the Board of directors and CEO of the Company

(A) The Chairman of the Board of Directors, who is a controlling shareholder of Bank Hapoalim B.M. (hereinafter: the "Bank"), is entitled, according to the approval by the general meeting on September 28, 2005, at the end of his term of service at the Company, to retirement pay at a rate of 250% per year, and six months' adjustment pay. Notwithstanding and in addition to the aforesaid, should he cease to serve as Chairman of the Board of Directors of the Company other than on his own initiative, he shall be entitled to double the amount owed for adjustment pay.

Prior to the presentation of the terms of employment of the Chairman of the Board of directors for approval by the general meeting of the Company, said terms of employment were approved by the Audit Committee and by the Board of Directors of the Company.

(B) The CEO is employed under a personal contract between the CEO and the Bank. At the termination of the employee-employer relationship between the Bank and the CEO of the Company, if the sum of his age and his period of employment at the Bank exceeds 75 years (provided he has not reached the age of 62 years), the CEO will be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his last monthly salary multiplied by the number of years of employment at the Bank, or a monthly pension at varying rates to be paid from the date of his early retirement until he reaches the retirement age specified by law. The rate of the pension is 2.67% per year for the first 15 years of work, 2% per year for each additional year in which he did not serve at the rank of a Deputy Managing Director of the Bank, and 2.5% for each year in which he served in any position at the rank of a Deputy Managing Director of the Bank, up to a maximum rate of 70% of the salary that entitles him to the pension. After reaching the age of 62, the CEO of the Company may choose only the enlarged compensation option.

Note 14 – Employee Rights (cont.)

A. Retirement Compensation and Pension (cont.)

The financial statements include adequate provisions to cover the liabilities detailed in Sections 2(A) and (B) above.

B. Bonuses

(1) The Chairman of the Board of Directors is entitled to an annual bonus at varying rates, based on Bank's net return on equity, as well as the ratio of net profit to the Bank's balance sheet assets. The Company shall bear the cost of 70% of the aforesaid annual bonus. The terms of employment of the Chairman of the Board of directors were approved by the general meeting of shareholders of the Bank.

During 2006, the Chairman of the Board of directors gave notification that despite his existing contract, he would be willing for the calculation of the bonus to be made while deducting from the Bank's profits the considerable profits to be obtained as a result of the sale of assets imposed upon the Bank under the Bachar Reform.

(2) The CEO of the Company is entitled to a signing bonus for every year of work and an annual bonus derived from the amount of his salary and from the Bank's rate of net return on equity.

(3) Under an agreement signed between the Bank and the employees' union at the Bank, some employees are entitled to an annual bonus expressed in units of monthly salaries at varying amounts, based on the Bank's rate of net return on equity. The bonus for each individual employee is differential and is based on the employee's achievements. The Company employs employees who are on loan from Bank Hapoalim, and as such are entitled to the aforesaid bonus.

(4) Under the employment agreement, the CEO of the Company was granted phantom options (a monetary grant based on the change in the price of the parent company's share on the Tel Aviv Stock Exchange) at no cost for the years 2004-2006.

(5) Some employees are entitled to a "Jubilee Grant" at the end of 25 and 40 years of employment at the Company.

(6) Some employees are entitled to compensation for unutilized sick days upon retirement.

The financial statements include appropriate provisions in respect of Sections (5) and (6) above, based on actuarial calculations, which include a real salary increment at a rate of 1% per year, and capitalized at an annual discount rate of 4%, with a total balance of approximately NIS 4 million (2005: NIS 4 million).

The financial statements include full provisions for all of the aforesaid bonuses.

Note 14 – Employee Rights (cont.)

C. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required incidental expenses. The balance of the provision at the balance sheet date totaled approximately NIS 2 million.

D. Retirement program

The balance of the provision for retirement programs implemented in recent years amounts to NIS 5 million. The provision is based on actuarial calculations, including a real salary increment at a rate of 1% per year, and capitalized at an annual discount rate of 4%.

E. Options to Employees

In May 2004, the Board of Directors of the Bank approved an option program for the Bank's employees. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, shall be allocated nontradable option notes, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Under the terms of the program, the option notes will be granted in six equal annual portions over the course of six years, and will be exercisable starting when 48 months have elapsed from January 1 of the year in which they were granted.

Up to and including 2006, 247,256 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black and Scholes model, amounts to approximately NIS 3 million.

Note 15 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2006					
	Israeli currency		Foreign currency**			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	1,195	264	33	3	-	1,495
Debtors in respect of credit cards activity	7,640	47	110	*-	-	7,797
Securities	-	-	-	-	12	12
Investments in equity-basis investee companies	-	-	-	-	13	13
Buildings and equipment	-	-	-	-	159	159
Other assets	22	7	-	-	11	40
Total assets	**8,857**	**318**	**143**	**3**	**195**	**9,516**
Liabilities						
Credit from banking corporations	1	-	3	-	-	4
Creditors in respect of credit cards activity	8,258	46	107	-	1	8,412
Other liabilities	396	-	-	-	-	396
Total liabilities	**8,655**	**46**	**110**	**-**	**1**	**8,812**
Difference	202	272	33	3	194	704

* Amount lower than NIS 0.5 million.

** Including foreign currency-linked.

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

Reported amounts

In NIS millions

	December 31, 2005					
	Israeli currency		Foreign currency**			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	1,025	270	26	*-	-	1,321
Debtors in respect of credit cards activity	6,989	44	110	-	-	7,143
Securities	-	-	-	-	12	12
Investments in equity-basis investee companies	-	-	-	-	3	3
Buildings and equipment	-	-	-	-	155	155
Other assets	29	-	-	-	13	42
Total assets	**8,043**	**314**	**136**	-	**183**	**8,676**
Liabilities						
Credit from banking corporations	4	-	-	-	-	4
Creditors in respect of credit cards activity	7,585	44	115	-	1	7,745
Other liabilities	343	-	-	-	-	343
Total liabilities	**7,932**	**44**	**115**	-	**1**	**8,092**
Difference	111	270	21	-	182	584

* Amount lower than NIS 0.5 million.

** Including foreign currency-linked.

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

Reported amounts

In NIS millions

	December 31, 2006					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	**Over 1 month and up to 3 months**	**Over 3 months and up to 1 year**	**Over 1 year and up to 2 years**	**Over 2 years and up to 3 years**	**Over 3 years and up to 4 years**
Unlinked Israeli currency						
Assets	5,181	1,705	1,610	292	55	1
Liabilities	4,329	2,028	1,684	291	57	-
Difference	**852**	**(323)**	**(74)**	**1**	**(2)**	**1**
CPI-linked Israeli currency						
Assets	25	12	266	17	-	-
Liabilities	23	11	10	2	-	-
Difference	**2**	**1**	**256**	**15**	**-**	**-**
Foreign currency (3)						
Assets	96	23	22	4	-	1
Liabilities	59	24	21	4	-	1
Difference	**37**	**(1)**	**1**	**-**	**-**	**-**
Non-monetary items						
Assets						
Liabilities						
Difference						

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

	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Total cash flows(1)	Balance sheet balance (2) No maturity date(4)	Total
	2	-	-	8,846	14	8,857
	3	2	4	8,398	257	8,655
	(1)	(2)	(4)	448	(243)	202
	1	-	-	321	-	318
	-	-	-	46	-	46
	1	-	-	275	-	272
	-	-	-	146	-	146
	-	-	-	109	1	110
	-	-	-	37	(1)	36
					195	195
					1	1
					194	194

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

(2) As included in Note 15, "Assets and Liabilities by Linkage Base."

(3) Including foreign currency-linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 5 million.

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

Reported amounts

In NIS millions

	December 31, 2006					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	5,302	1,740	1,898	313	55	2
Liabilities	4,410	2,063	1,716	297	57	1
Difference	**892**	**(323)**	**182**	**16**	**(2)**	**1**

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

					Balance sheet balance (2)	
	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Total cash flows(1)	No maturity date(3)	Total
	3	-	-	9,313	209	9,516
	3	2	4	8,553	259	8,812
	-	**(2)**	**(4)**	**760**	**(50)**	**704**

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

(2) As included in Note 15, "Assets and Liabilities by Linkage Base."

(3) Including assets whose maturity date has elapsed in the amount of NIS 5 million.

Note 17 – Contingent Liabilities and Special Agreements

A. Off-Balance Sheet Financial Instruments

Reported amounts

In NIS millions

	December 31	
	2006	2005
Unutilized credit card credit facilities:		
Credit risk on Company	543	333
Credit risk on banks	13,943	12,315

Credit facilities for current transactions for credit card holders are provided by banks that are members of the Isracard Arrangement (see also Note 17G below), and are the responsibility of each banking corporation that has provided its customer such a credit line.

B. Antitrust Issues and Recommendations for Additional Regulation

In May 2005, the Antitrust Commissioner (hereinafter: the "Commissioner") declared the Company a holder of a monopoly in clearing Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes it has strong arguments against the aforesaid declaration of monopoly, and the Company has appealed to the court against the declaration. In any case, the Commissioner's aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below.

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

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

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

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

2. A directive instructing the Company to sign a "domestic agreement" regulating the interaction between clearers and issuers for the purposes of clearing in Israel of the aforesaid cards, under temporary interchange fee terms (the fee paid by clearers of credit card transactions to the credit card issuers), as approved by the Antitrust Tribunal for other clearers, and a permanent interchange fee, to be approved, for the clearing of the aforesaid cards, and for clearing by the Company of Visa cards issued by the other clearers.
3. A directive instructing the Company to implement a common technical interface for the execution of local clearing.

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

Based on the opinion of its legal advisors, the Company believes it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner.

Following talks held between the Company, the credit card companies Leumi Card Ltd. and Cartisei Ashrai LeIsrael Ltd. (the three companies jointly, hereinafter: the "Credit Card Companies"), and the Commissioner, the Credit Card Companies reached an arrangement among themselves (hereinafter: the "Arrangement"), with the Commissioner's support, under which the Credit Card Companies will enter into a detailed domestic agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface, of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a binding arrangement from the Antitrust Tribunal. The Credit Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim B.M., Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a binding agreement with the Tribunal on October 30, 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. On October 31, 2006, the Tribunal granted provisional approval to the Arrangement, until a decision is reached, through a temporary permit.

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

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

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

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

The Company cannot estimate whether or when the request for permanent approval of the Arrangement will be granted. At this stage, the Company is preparing for implementation of the Arrangement starting in June 2007, according to the provisional permit granted by the Tribunal, as described above.

A report by an 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:

1. To appoint a qualified entity who in order to ensure competition in the area of clearing charge cards will have the authority to:
    - A. 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.
    - B. 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 17 – Contingent Liabilities and Special Agreements (cont.)

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

2. 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.
3. To encourage new suppliers to enter the field of issuing and clearing.
4. The Committee also made recommendations regarding the discount of transactions performed using credit cards (hereinafter: "discount").

The Company estimates that the possible materialization of any of the following factors: large-scale clearing of transactions in MasterCard cards by additional clearers other than the Company; implementation of the Arrangement and its terms, including reduction of the interchange fee or equalization of clearing fees in Isracard cards to those of MasterCard cards; the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof; or 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, including in brands owned and operated by the Company, may influence the Company's course of action and may have a material adverse effect on the Company's financial results in the future; however, the Company cannot estimate the extent of such an effect.

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

C. Legal Claims

Several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 16 million (excluding the claim detailed below). The Company estimates that the chances of acceptance of the claimants' arguments are low; therefore, no provision was made in respect of these claims.

On February 25, 2004, a claim and a petition to certify the claim as a class action under the Banking (Service to Customers) Law, 5741-1981, were filed with the District Court of Tel Aviv against the Company. The amount of the class action suit stipulated in the claim statement is NIS 192.45 million, while the amount of the personal claim is NIS 328.30.

The claimant, who is the holder of a credit card issued to her by the Company, alleges that the Company began charging two new fees, a deferred debit fee and an operating fee, without legal and/or contractual grounds and in violation of the Banking Law, 5741-1981. The claimant has petitioned to represent holders of credit cards issued by the Company who were charged the new fees.

The remedy which the claimant has requested from the court is to direct the Company to cease charging the aforesaid fees and to refund the amounts of the fees charged until the date on which the claim was filed.

The court denied the petition to certify the claim as a class action and the claim itself in July 2006.

In the second half of October 2006, an appeal of the District Court's ruling was filed with the Supreme Court. In the opinion of the Company's legal advisors, the chances of the appeal are remote.

D. At the balance sheet date, guarantees provided by the Company exist in the amount of approximately NIS 3 million.

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

E. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company. The aggregate amount of the indemnification to provided under the obligation to all directors of the Company in respect of one or more indemnification events shall not exceed 30% (thirty percent) of its shareholders' equity according to its financial statements as at June 30, 2004 (which stood at a total of NIS 440 million).

F. Agreements with Sister Companies

The Company has agreements with Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Aminit Ltd., which are sister companies (hereinafter: the "Sister Companies"), for the operation of their credit card systems.

The Company operates the issuing activity of their credit cards as well as the clearing of transactions executed in Israel using cards issued abroad. The Sister Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of the arrangement.

G. Agreements with Banking Corporations

General

The Company has agreements with the banks listed below with regard to the issuance of credit cards to customers of the said banks: 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 Poaley Agudat Israel Ltd., First International Bank of Israel Ltd., and Bank Mizrahi-Tefahot Ltd. ("mizrahi-Tefahot Bank") (together – "Banks Under Arrangement").

Within the agreements with the Banks Under Arrangement, each bank was granted the authority to determine which customers are found suitable to join the Company's credit card arrangement, and to recommend that the Company register such customers for the credit card arrangement. Each bank is responsible for honoring all sales slips and debits executed by its customers on the day of presentation of the sales slips or debits to the bank. Furthermore, each bank is responsible for any damage caused as a result of the loss, theft, or cancellation of a credit card used by an unauthorized party. The bank's responsibility for such damages expires after a certain period.

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

G. Agreements with Banking Corporations (cont.)

Formula for Distribution of the Company's Surplus of Income over Expenses (the Distribution Formula):

The agreements with the Banks Under Arrangement, excluding mizrahi-Tefahot Bank (with regard to the arrangement with mizrahi-Tefahot Bank, see below), stipulate a distribution formula (the "Distribution Formula") regarding each bank's entitlement to the Company's surplus of income over expenses. According to the Distribution Formula, each bank participates in the Company's surplus of income over current expenses in respect of the company's credit cards.

Each bank's participation rate in the surplus of income over expenses, after the distribution of membership fees, operating fees, and deferred debit fees, is based on the ratio of the turnover arising from transactions by customers of that bank to the overall turnover of the Company's customers (the "Turnover Ratio"). Account settlement is performed on a quarterly basis.

Within the agreements with the Banks Under Arrangement, each bank has undertaken an obligation to pay the Company quarterly royalties, which are a certain percentage of the turnover of customers' transactions in respect of debits during the course of the month and a certain percentage of the periodic membership fees, according to the rate list. At the date of distribution of the surplus of income over expenses, each bank is also credited for income from membership fees collected from its customers. The agreements further stipulate that income in respect of operating fees and deferred debit fees collected from customers shall be divided between the banks and the Company (each bank in respect of its own customers).

Arrangement with Mizrahi-Tefahot Bank Regarding the Distribution Formula

Several years ago, an amended agreement was signed between mizrahi-Tefahot Bank and the Company (the "Amended Agreement"). Until that time, the arrangement described above applied between the Company and mizrahi-Tefahot Bank.

With regard to the Distribution Formula, it was established that mizrahi-Tefahot Bank would be credited for a certain percentage of the membership fees actually collected from its customers. In addition, mizrahi-Tefahot Bank shall be entitled, under certain conditions, to receive a supplement to the amounts owed to it by the Company, according to the aforesaid Distribution Formula, up to a total equal to a certain percentage of the turnover of transactions by its customers using the Company's credit cards. In addition, mizrahi-Tefahot Bank was granted the right to notify the Company of the cancellation of these provisions of the Amended Agreement and the reinstatement of the provisions of the Distribution Formula as stipulated in the agreements with the other Banks Under Arrangement (as in effect at the date of cancellation).

Mizrahi-Tefahot Bank, which distributes credit cards of the Company and of others to its customers, has addressed a request to the credit card companies, including the Company, to submit proposals for the operation of a branded credit card for the bank. The Company has submitted a proposal and is conducting negotiations with mizrahi-Tefahot Bank, which have yet to be concluded.

Note 18 – Fair Value of Financial Instruments

Balances and fair value estimates of financial instruments:

1. **Fair value of financial instruments:**

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

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

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

In the majority of the items described below, for financial instruments (excluding tradable financial instruments) for an original period of up to three months or at a floating market interest rate (such as Prime or LIBOR) changed at a frequency of up to three months, the balance sheet balance serves as an approximation of fair value.

Deposits with banks - By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance sheet date.

Note 18 – Fair Value of Financial Instruments (cont.)

Debtors in respect of credit card activity – By discounting future cash flows according to the interest rate at which the Company raised similar credit close to the balance sheet date.

Securities – Tradable securities: at market value. Nontradable securities: at cost.

Creditors in respect of credit card activity – By discounting future cash flows according to the interest rate at which the Company raises credit.

Note 18 – Fair Value of Financial Instruments (cont.)

3. Balances and fair value estimates of financial instruments:

	December 31, 2006				December 31, 2005			
	Balance sheet balance			Fair value	Balance sheet balance			Fair value
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets:								
Cash on hand and deposits with banks	1,232	263	1,495	1,489	1,050	271	1,321	1,316
Debtors in respect of credit card activity	5,800	1,997	7,797	7,733	5,268	1,875	7,143	7,078
Securities	-	12	12	12	-	12	12	12
Other financial assets	10	19	29	28	18	11	29	27
Total financial assets	**7,042**	**2,291**	**9,333**	**9,262**	**6,336**	**2,169**	**8,505**	**8,433**
Financial liabilities:								
Credit from banking corporations	4	-	4	4	4	-	4	4
Creditors in respect of credit card activity	6,378	2,033	8,411	8,332	5,818	1,926	7,744	7,676
Other financial liabilities	91	305	396	392	108	235	343	340
Total financial liabilities	**6,473**	**2,338**	**8,811**	**8,728**	**5,930**	**2,161**	**8,091**	**8,020**

(1) Financial instruments whose balance sheet balance is the estimated fair value, instruments presented in the balance sheet at market value, or instruments for an original period of up to 3 months or based on a floating market interest that varies at a frequency of up to 3 months.

(2) Other financial instruments.

Note 19 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2006					
	Interested parties		Related parties			
	Controlling shareholders		Equity-basis investees		Others	
	Year-end balance	Highest balance for the year	Year-end balance	Highest balance for the year	Year-end balance	Highest balance for the year
Assets						
Cash on hand and deposits with banks	1,204	1,883	-	-	-	-
Debtors in respect of credit card activity(1)	-	-	-	-	-	-
Investments	-	-	13	13	-	-
Other assets	1	1	-	-	9	18
Liabilities						
Credit from banking corporations	4	25	-	-	-	-
Creditors in respect of credit card activity	52	57	403	423	109	109
Other liabilities	2	2	-	-	249	258
Shares (included in shareholders' equity)	*-	*-	-	-	-	-
Credit risk and off-balance sheet financial instruments	9,050	9,050	-	-	1,399	1,399
Guarantees given by banks	4,670	4,670	-	-	930	930

* Amount lower than NIS 0.5 million.

(1) Balance may include immaterial amounts of interested parties.

Note 19 – Interested and Related Parties of Credit Card Companies (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2005					
	Interested parties		Related parties			
	Controlling shareholders		Equity-basis investees		Others	
	Year-end balance	Highest balance for the year	Year-end balance	Highest balance for the year	Year-end balance	Highest balance for the year
Assets						
Cash on hand and deposits with banks	1,032	1,457	-	-	150	150
Debtors in respect of credit card activity(1)	-	-	-	-	-	-
Investments	-	-	3	5	-	-
Other assets	-	1	-	-	17	20
Liabilities						
Credit from banking corporations	4	9	-	-	-	-
Creditors in respect of credit card activity	51	59	395	418	124	230
Other liabilities	2	4	-	-	197	205
Shares (included in shareholders' equity)	*-	*-	-	-	-	-
Credit risk and off-balance sheet financial instruments	8,816	8,816	-	-	1,284	1,284
Guarantees given by banks	4,375	4,375	-	-	1,507	1,507

* Amount lower than NIS 0.5 million.

(1) Balance may include immaterial amounts of interested parties.

Note 19 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

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

	December 31, 2006		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit card transactions	25	-	6
Profit from financing activity before provision for doubtful debts	41	-	(6)
Other income	4	-	9
Operating expenses	-	-	(1)
General and administrative expenses	-	9	-
Payments to banks	250	-	69
Total	**(180)**	**(9)**	**(61)**

	December 31, 2005		
Income from credit card transactions	20	-	7
Profit from financing activity before provision for doubtful debts	30	-	(6)
Other income	3	-	8
Operating expenses	-	-	1
General and administrative expenses	-	16	-
Payments to banks	241	-	73
Total	**(188)**	**(16)**	**(65)**

Note 19 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

C. Benefits to Interested Parties (from the credit card company)

	December 31, 2006							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit
Interested party employed by the corporation or on its behalf	-	-	-	-	9	2	-	-

	December 31, 2005							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders (2)		Others (3)					
	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit	Total benefits	Number of recipients of benefit
Interested party employed by the corporation or on its behalf	-	-	-	-	16	2	-	-

D. Interested and Related Parties

For further details, see Note 14 – Employee Rights, and the Note on Contingent Liabilities and Special Agreements – 17 (E), (F), (G).

Note 20 – Income from Credit Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	**2005**
Income from businesses:		
Business fees	823	744
Other income	10	9
Total income from businesses	833	753
Income in respect of credit card holders:		
Issuer fees	28	26
Service fees	120	110
Fees from transactions abroad	20	14
Other income	6	2
Total income in respect of credit card holders	**174**	**152**
Total income from credit card transactions	**1,007**	**905**

Note 21 – Profit from Financing Activity before Provision for Doubtful Debts

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	**2005**
A. Financing income in respect of assets:		
From credit to cardholders	7	1
From credit to businesses	2	2
From deposits with banks	49	37
From other assets	1	4
Total in respect of assets	**59**	**44**
B. Financing expenses in respect of liabilities:		
To banking corporations	4	4
On other liabilities	10	9
Total in respect of liabilities	**14**	**13**
C. Other:		
Other financing income	8	9
Total profit from financing activity	**53**	**40**
* Of which: exchange rate differences, net	8	12

Note 22 – Other Income

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	**2005**
From rental of assets	5	4
Operating fees from related parties	9	8
Others	2	1
Total other income	**16**	**13**

Note 23 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	**2005**
Salary and incidental expenses (1)	103	87
Data processing and computer maintenance	19	14
Automatic banking services	16	15
Operating fees from incoming and outgoing tourism	22	19
Fees to other issuers	37	33
Amortization and depreciation	21	20
Communications	4	4
Production and delivery	68	56
Damage from abuse of credit cards	7	6
Rent and building maintenance	14	14
Others	15	11
Total operating expenses	**326**	**279**

(1) Includes salary and incidental expenses of employees in the following departments: Computer Operation and Data Processing, Data Capture and Control, Customer and Supplier Databases, Issuance and Delivery, Security, Logistics and Purchasing, Customer Relations, and Public Relations.

Note 24 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	2005
Salary and incidental expenses (1)	28	24
Advertising	62	30
Customer retention and recruitment	7	10
Gift campaigns for credit card holders	34	32
Travel insurance for credit card holders	5	4
Vehicle maintenance	3	3
Others	3	3
Total sales and marketing expenses	**142**	**106**

(1) Includes salary and incidental expenses of employees in the following departments: Sales and Commerce, Advertising and Productions, Marketing Strategy, Marketing and International Relations.

Note 25 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31	
	2006	2005
Salary and incidental expenses (1)	21	29
Professional services	5	5
Insurance	8	8
Others	9	9
Total general and administrative expenses	**43**	**51**

(1) Includes salary and incidental expenses of employees in the following departments: Management, Finance, Accounting, and Human Resources, as well as the salary of the Chairman of the Board of Directors.

Note 26 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31	
	2006	**2005**
Current taxes for the tax year	54	53
Deferred taxes for the tax year	1	1
Provision for taxes on income	**55**	**54**

2. Adjustment of the theoretical tax rate 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	**2005**
Tax rate applicable to the Company in Israel	31%	34%
Tax amount based on statutory rate	54	54
Tax increment (saving) in respect of:		
Unrecognized expenses	1	1
Deferred tax income due to changes in tax rates	-*	1
Effect of Adjustment for Inflation Law, 5745-1985	-*	(2)
Provision for taxes on income	**55**	**54**

* 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 to be final under the Income Tax Ordinance.

   For subsidiaries, final tax assessments have been issued up to and including the tax year 2002.

Note 26 – Provision for Taxes on Operating Profit (cont.)

4. Deferred tax balances and provision for deferred taxes:

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2006	**2005**	**2006**	**2005**
From specific provision for doubtful debts	6	4	-	-
From provision for vacations and bonuses	1	1	-	-
From surplus of provision for compensation and pensions over the amount funded	2	3	-	-
From adjustment of depreciable non-monetary assets	-	-	4	3
Total	**9**	**8**	**4**	**3**

5. 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: "Amendment 147").

The amendment sets forth a gradual reduction of the companies 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 companies tax rate to 25%, all real capital gains will be taxed at a rate of 25%. Current taxes and deferred tax balances as at December 31, 2005 are calculated according to the new tax rates, as stipulated in the aforesaid Amendment 147. The effect of the change on the financial statements as at the beginning of 2005 is an increase in expenses for taxes on income in the amount of approximately NIS 1 million.

Note 27 – Operating Segments

A. General

The Company issues, clears, and operates Isracard type credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. ("Europay"), which combine the Isracard and **MasterCard** brands ("MasterCard cards"), and clears and operates MasterCard cards issued by the Company for use in Israel and by Europay for use abroad, under a license from **MasterCard International Incorporated**.

The Issuance Segment

The Company issues and operates Isracard type credit cards (a private brand) and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

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

The main income items associated with this segment are interchange fees, membership fees, operating fees, and deferred debit fees.

Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer.

The main expenses associated with this segment are customer recruitment, customer club advertising and management, issuance and delivery of cards and attachments, and production and delivery of debit statements.

The Clearing Segment

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

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

The main income item in the Clearing Segment is fees from businesses, net of interchange fees which are allocated to the Issuance Segment.

The main expenses associated with the Clearing Segment are recruitment and retention of businesses, joint advertising with businesses, clearing of sales slips, and production and delivery of credit statements.

Other

Includes all of the Company's other activities each of which does not constitute a reportable segment.

Note 27 – Operating Segments (cont.)

B. Quantitative Data on Operating Segments:

	For the year ended December 31, 2006			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Profit and loss data:				
Income				
Fees from externals	835	172	-	1,007
Fees – intersegmental	(642)	642	-	-
Total	**193**	**814**	**-**	**1,007**
Profit from financing activity before provision for doubtful debts	14	36	3	53
Other income	1	2	13	16
Total income	**208**	**852**	**16**	**1,076**
Expenses				
Provision for doubtful debts	*-	4	-	4
Operating	121	201	4	326
Sales and marketing	24	118	-	142
General and administrative	14	29	-	43
Payments to banks	39	347	-	386
Total expenses	**198**	**699**	**4**	**901**
Operating profit before taxes	**10**	**153**	**12**	**175**
Provision for taxes on operating profit	3	48	4	55
Net operating profit after taxes	**7**	**105**	**8**	**120**
The Company's share in operating profits (losses) of equity-basis investee companies after tax effect	-	-	-*	-*
Net profit	**7**	**105**	**8**	**120**

* Amount lower than NIS 0.5 million.

Note 27 – Operating Segments (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2006			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Additional Information				
Balance of assets	1,124	8,307	85	9,516
Of which: investments in equity-basis investee companies	-	-	*-	*-
Balance of liabilities	8,599	182	31	8,812

* Amount lower than NIS 0.5 million.

Note 27 – Operating Segments (cont.cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2005			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Profit and loss data:				
Income				
Fees from externals	753	151	1	905
Fees – intersegmental	(574)	574	-	-
Total	**179**	**725**	**1**	**905**
Profit from financing activity before provision for doubtful debts	11	28	1	40
Other income	-	1	12	13
Total income	**190**	**754**	**14**	**958**
Expenses				
Provision for doubtful debts	(1)	1	-	-
Operating	107	169	3	279
Sales and marketing	19	87	-	106
General and administrative	17	34	-	51
Payments to banks	38	326	-	364
Total expenses	**180**	**617**	**3**	**800**
Operating profit before taxes	**10**	**137**	**11**	**158**
Provision for taxes on operating profit	3	47	4	54
Net operating profit after taxes	**7**	**90**	**7**	**104**
The Company's share in operating losses of equity-basis investee companies after tax effect	-	-	(2)	(2)
Net profit	**7**	**90**	**5**	**102**

Note 27 – Operating Segments (cont.)

Reported amounts

In NIS millions

B. Quantitative Data on Operating Segments (cont.):

	For the year ended December 31, 2005			
	Clearing Segment	Issuance Segment	Other	Consolidated Total
Additional Information				
Balance of assets	745	7,843	88	8,676
Of which: investments in equity-basis investee companies	-	-	2	2
Balance of liabilities	7,861	213	18	8,092

Note 28 – 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 Europay (Eurocard) Israel 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.

Note 29 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2006	**2005**
Total assets	9,490	8,660
Total liabilities	8,807	8,097
Shareholders' equity	683	563
Nominal net profit	120	103

Note 30 – Condensed Balance Sheets and Statements of Profit and Loss

Reported amounts

In NIS millions

A. Company Balance Sheet

	December 31	
	2006	**2005**
Assets		
Cash on hand and deposits with banks	1,494	1,321
Debtors in respect of credit card activity	7,654	7,123
Securities	12	12
Investments in investee companies	104	98
Buildings and equipment	64	58
Other assets	183	78
Total assets	**9,511**	**8,690**
Liabilities		
Credit from banking corporations	4	4
Creditors in respect of credit card activity	8,405	7,751
Other liabilities	398	351
Total liabilities	**8,807**	**8,106**
Shareholders' equity	704	584
Total liabilities and capital	**9,511**	**8,690**

Note 30 – Condensed Balance Sheets and Statements of Profit and Loss (cont.)

Reported amounts

In NIS millions

B. Company Statements of Profit and Loss

	For the year ended December 31	
	2006	**2005**
Income		
From credit card transactions	1,008	905
Profit from financing activity before provision for doubtful debts	50	39
Others	11	9
Total income	**1,069**	**953**
Expenses		
Provision for doubtful debts	3	*-
Operating	326	283
Sales and marketing	142	106
General and administrative	43	49
Payments to banks	386	364
Total expenses	**900**	**802**
Operating profit before taxes	169	151
Provision for taxes on operating profit	53	53
Operating profit after taxes	116	98
The Company's share in operating profits (losses) of investee companies after tax effect	4	4
Net profit	**120**	**102**

* Amount lower than NIS 0.5 million.