Aminit Ltd.

Annual Report

For the year ended December 31, 2008

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Aminit Ltd.

Board of Directors' Report

For the Year Ended December 31, 2008

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

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

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1979 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), and is a company under its full ownership at the reporting date. The Company is a credit-card company and an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981 ("**auxiliary corporation**"). The Company has no subsidiaries or other investee companies.

The Company issues, acquires, and operates Visa credit cards issued for use in Israel and abroad under a license granted to the Company by the Visa International Service Association ("**Visa Association**"). The Company's operations are conducted through three operating segments: the Issuance Segment, which handles cardholders; the Acquiring Segment, which handles merchants; and the Travelers' Checks Segment.

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

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

In February 2009, Mr. Dov Kotler took office as Chief Executive Officer of the Company. Mr. Kotler replaced Mr. Haim Krupsky, who served as CEO of the Company starting in 1994, in this position. As of the aforesaid date, Mr. Krupsky serves as Deputy Chairperson of the Board of Directors of the Company.

Contractual engagement between the Company and Isracard – Under an agreement between the Company and Isracard, Isracard administers and operates the Company's credit-card issuance activity, acquiring activity in Israel of transactions executed with merchants using Visa cards, and travelers' checks activity ("**the Arrangement**"). The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity in question. In return for Isracard's activity in the operation of the Arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties.

Investments in the Company's capital and transactions in its shares – In November 2008, the Company's registered and issued share capital was consolidated such that each 10,000 shares of par value NIS 0.0001 each were consolidated into one common share of par value NIS 1. In addition, the expansion of the Company's registered share capital to 15,000,000 NIS, divided into 15,000,000 common shares of par value NIS 1 each ("**Common Shares**"), was approved. Of the aforesaid share capital, in November 2008, 4,000 common shares were allocated to Bank Hapoalim in consideration for a total of NIS 3,750 per share (a total of NIS 15 million), paid to the Company in cash.

Dividend distribution – The Company has not distributed dividends since its incorporation.

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

Operational Data

Number of credit cards (in thousands)

Number of valid credit cards as of December 31, 2008

	Active cards	**Inactive cards**	**Total**
Bank cards	19	8	27

Number of valid credit cards as of December 31, 2007

	Active cards	**Inactive cards**	**Total**
Bank cards	18	12	30

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

	For the year ended December 31	
	2008	**2007**
Bank cards	**480**	**271**

Definitions:

Valid credit card: A card issued and not cancelled by the last day of the reported period.

Active credit card: A credit card valid at the end of the reported period, which was used to execute transactions during the last quarter of the reported period.

Bank credit card: A card in which customer debits are performed at a bank, in accordance with the Company's agreements with the bank; the card is under the responsibility of the bank.

Transaction volume: The volume of transactions executed in the Company's cards during the reported period.

Profit and Profitability

The Company's net profit totaled NIS 774 thousand in 2008, compared with NIS 281 thousand in 2007, an increase of 175%.

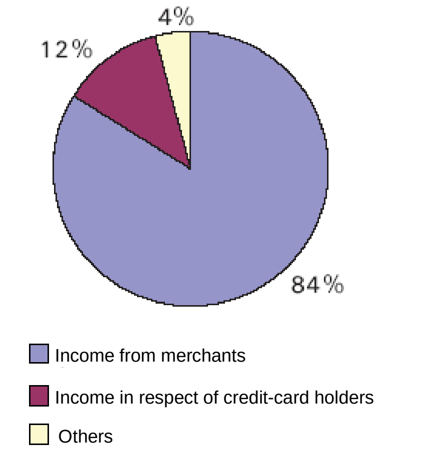
The increase in the Company's net profit as compared to 2007 mainly resulted from an increase in the volume of transactions in the credit cards acquired and issued by the Company.

Net return on equity reached 8.2% in 2008, compared with 4.2% in 2007.

Developments in Income and Expenses

Income totaled NIS 63,143 thousand, compared with NIS 18,244 thousand in 2007, an increase of 246%. For an explanation of this increase, see the section "Income from credit-card transactions," below.

Composition of income from credit-card transactions, 1-12/2008



Income from credit-card transactions totaled NIS 61,789 thousand, compared with NIS 17,982 thousand in 2007, an increase of 244%. The increase resulted from the following factors:

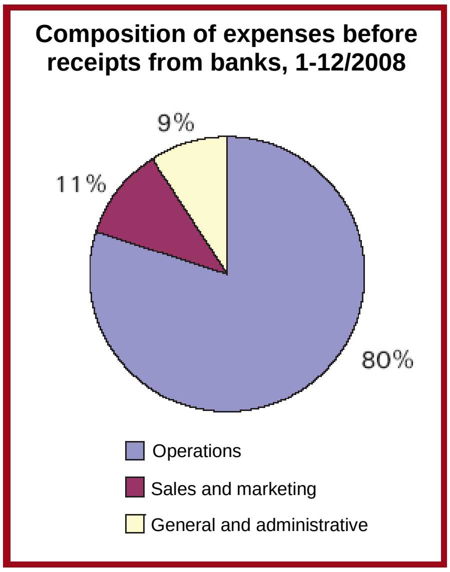
- Income from merchants totaled NIS 51,419 thousand, compared with NIS 10,593 thousand in 2007. This increase resulted from an increase in the number of merchants with acquiring agreements with the Company. The increase began in June 2007, following the signing of the cross-acquiring agreement among the credit-card companies and the opening of the common domestic technical interface.

- Income in respect of credit-card holders totaled NIS 7,702 thousand, compared with NIS 4,674 thousand in 2007, an increase of 65%.

- Other income totaled NIS 2,668 thousand, compared with NIS 2,715 thousand in 2007.

Profit from financing activity before provision for doubtful debts totaled NIS 1,180 thousand, compared with NIS 262 thousand in 2007, an increase of 350%, resulting from an increase in the volume of the Company's activity.

Other income totaled NIS 174 thousand, as a result of the redemption of shares of Visa Inc. on March 28, 2008.



Operating expenses, including interchange fees to other issuers, totaled NIS 53,770 thousand, compared with NIS 16,509 thousand in 2007, an increase of 226%. The increase resulted from the following factors:

- An increase in interchange fees paid to other issuers, due to the increase in volumes of transactions as a result of the increase in the number of merchants with acquiring agreements with the Company. The increase began in June 2007, following the signing of the cross-acquiring agreement among the credit-card companies and the opening of the common domestic technical interface. See "Restrictions and supervision of the Company's operations," below.

- An increase in the volume of the Company's activity.

Expenses for interchange fees to other issuers totaled NIS 39,454 thousand, compared with NIS 8,985 thousand in 2007, an increase of 339%.

Sales and marketing expenses totaled NIS 7,553 thousand, compared with NIS 4,969 thousand in 2007, an increase of 52%, resulting from expenses for the recruitment of new merchants.

General and administrative expenses totaled NIS 6,388 thousand, compared with NIS 2,097 thousand in 2007, an increase of 205%, resulting from the increase in the volume of the Company's activity.

Net receipts from banks – Receipts from banks, net of payments to banks (according to the payment arrangements with the banks), totaled NIS 5,634 thousand in 2008, compared with NIS 5,676 thousand in 2007.

Operating profit before taxes totaled NIS 998 thousand, compared with NIS 345 thousand in 2007, an increase of 189%.

The return of operating profit before taxes on equity reached 10.5%, compared with 5.2% in 2007.

The provision for taxes on operating profit totaled NIS 224 thousand, compared with NIS 64 thousand in 2007. The effective rate of tax out of total operating profit before taxes reached 22%, compared with 19% in 2007.

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

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

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2008 totaled NIS 472,228 thousand, compared with NIS 242,582 thousand on December 31, 2007.

Developments in the principal balance-sheet items:

	December 31			
	2008	**2007**	**Change**	
	NIS thousands		**NIS thousands**	**%**
Total balance sheet	472,228	242,582	229,646	95
Debtors in respect of credit-card activity	432,026	215,648	216,378	100
Cash on hand and deposits with banks	39,113	25,909	13,204	51
Travelers' checks in circulation	13,536	15,766	(2,230)	(14)
Creditors in respect of credit-card activity	406,484	198,676	207,808	105
Other liabilities	29,615	21,304	8,311	39
Shareholders' equity	22,586	6,812	15,774	232

Debtors in respect of credit-card activity totaled NIS 432,026 thousand on December 31, 2008, compared with NIS 215,648 thousand at the end of 2007. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase mainly resulted from the fact that in June 2007, the Company began direct acquiring in Israel of transactions executed using Visa cards issued by other credit-card companies.

Cash on hand and deposits with banks totaled NIS 39,113 thousand on December 31, 2008, compared with NIS 25,909 thousand at the end of 2007.

Travelers' checks in circulation totaled NIS 13,536 thousand on December 31, 2008, compared with NIS 15,766 thousand at the end of 2007. The decrease resulted from redemptions of travelers' checks.

Creditors in respect of credit-card activity totaled NIS 406,484 thousand on December 31, 2008, compared with NIS 198,676 thousand at the end of 2007. This amount mainly includes balances payable to merchants where credit-card holders’ transactions were executed but not yet repaid at the balance-sheet date. The significant increase resulted from an increase in the number of merchants who have entered into acquiring agreements with the Company. This increase began in June 2007, following the signing of the cross-acquiring agreement among the credit-card companies and the opening of the common domestic technical interface. See "Restrictions and supervision of the Company's operations," below.

Other liabilities totaled NIS 29,615 thousand on December 31, 2008, compared with NIS 21,304 thousand at the end of 2007. The increase mainly resulted from an increase in the amount of debt to Isracard.

Shareholders’ equity totaled NIS 22,586 thousand on December 31, 2008, compared with NIS 6,812 thousand at the end of 2007. The increase in shareholders' equity resulted from an increase of the Company's registered share capital by NIS 15 million (see Note 14), as well as an increase in the Company's net profit.

The ratio of shareholders’ equity to the balance sheet reached 4.8% on December 31, 2008, compared with 2.8% on December 31, 2007.

The ratio of capital to risk-adjusted assets reached 22.8% on December 31, 2008, compared with 11.7% on December 31, 2007 (see Note 14). The minimum capital ratio required by the Bank of Israel is 9%.

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

In NIS thousands

	For the year ended December 31, 2008				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other[1]**	**Total**
Income					
Fees from externals	7,705	54,084	-	-	61,789
Intersegmental fees	1,195	(1,195)	-	-	-
Total	**8,900**	**52,889**	**-**	**-**	**61,789**
Profit from financing activity before provision for doubtful debts	-	487	693	-	1,180
Other income	-	-	-	174	174
Total income	**8,900**	**53,376**	**693**	**174**	**63,143**
Expenses					
Provision for doubtful debts	-	68	-	-	68
Operation	3,194	50,129	447	-	53,770
Sales and marketing	4,724	2,829	-	-	7,553
General and administrative	679	5,709	-	-	6,388
Payments to banks (receipts from banks)	(769)	(5,231)	241	125	(5,634)
Total expenses	**7,828**	**53,504**	**688**	**125**	**62,145**
Operating profit (loss) before taxes	**1,072**	**(128)**	**5**	**49**	**998**
Provision for taxes on operating profit	253	(30)	1	-	224
Net profit (loss)	**819**	**(98)**	**4**	**49**	**774**
Return on equity (percent net profit out of average capital)	8.7	(1.0)	-	0.5	8.2
Average balance of assets	61,288	286,129	14,530	(37)	361,910
Average balance of liabilities	5,367	333,600	14,334	212	353,513
Average balance of risk-adjusted assets	14,947	281,017	2,982	(7)	298,939

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

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS thousands

	For the year ended December 31, 2007				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other**	**Total**
Income					
Fees from externals	4,673	13,309	-	-	17,982
Intersegmental fees	163	(163)	-	-	-
Total	**4,836**	**13,146**	**-**	**-**	**17,982**
Profit (loss) from financing activity before provision for doubtful debts	-	(802)	1,064	-	262
Total income	**4,836**	**12,344**	**1,064**	**-**	**18,244**
Expenses					
Provision for doubtful debts	-	-	-	-	-
Operation	2,571	12,633	1,305	-	16,509
Sales and marketing	2,703	2,266	-	-	4,969
General and administrative	702	1,395	-	-	2,097
Receipts from banks	(1,639)	(3,804)	(233)	-	(5,676)
Total expenses	**4,337**	**12,490**	**1,072**	**-**	**17,899**
Operating profit (loss) before taxes	**499**	**(146)**	**(8)**	**-**	**345**
Provision for taxes on operating profit	92	(27)	(1)	-	64
Net profit (loss)	**407**	**(119)**	**(7)**	**-**	**281**
Return on equity (percent net profit out of average capital)	6.1	(1.8)	(0.1)	-	4.2
Average balance of assets*	30,449	75,627	18,358	-	124,434
Average balance of liabilities*	5,065	94,855	17,796	-	117,716
Average balance of risk-adjusted assets*	7,757	72,203	3,729	-	83,689

* Reclassified.

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS thousands

	For the year ended December 31, 2006				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other**	**Total**
Income					
Fees from externals	3,792	2,453	-	-	6,245
Intersegmental fees	5	(5)	-	-	-
Total	**3,797**	**2,448**	**-**	**-**	**6,245**
Profit (loss) from financing activity before provision for doubtful debts	-	(922)	1,132	-	210
Total income	**3,797**	**1,526**	**1,132**	**-**	**6,455**
Expenses					
Provision for doubtful debts	-	-	-	-	-
Operation	2,006	1,558	972	-	4,536
Sales and marketing	658	-	-	-	658
General and administrative	669	266	-	-	935
Payments to banks (receipts from banks)	(46)	(298)	156	-	(188)
Total expenses	**3,287**	**1,526**	**1,128**	**-**	**5,941**
Operating profit before taxes	**510**	**-**	**4**	**-**	**514**
Provision for taxes on operating profit	217	-	2	-	219
Net profit	**293**	**-**	**2**	**-**	**295**
Return on equity (percent net profit out of average capital)	4.6	-	-	-	4.6

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 819 thousand, compared with NIS 407 thousand in 2007, an increase of 101%. The increase in net profit in comparison to 2007 mainly resulted from an increase in the volume of transactions in credit cards issued by the Company.

Net return on equity in the segment reached 8.7%, compared with 6.1% in 2007.

Developments in Income and Expenses

The segment's income totaled NIS 8,900 thousand, compared with NIS 4,836 thousand in 2007, an increase of 84%, mainly resulting from an increase in the volume of transactions in credit cards issued by the Company.

Expenses, including receipts from banks, totaled NIS 7,828 thousand, compared with NIS 4,337 thousand in 2007, an increase of 80%.

Operating expenses totaled NIS 3,194 thousand, compared with NIS 2,571 thousand in 2007, an increase of 24%.

Sales and marketing expenses totaled NIS 4,724 thousand, compared with NIS 2,703 thousand in 2007, an increase of 75%, resulting from an increase in the volume of activity.

General and administrative expenses totaled NIS 679 thousand, compared with NIS 702 thousand in 2007, a decrease of 3%.

Net receipts from banks: In 2008, the banks' participation in the surplus of expenses over income totaled NIS 769 thousand, compared with participation in the surplus of expenses over income in the amount of NIS 1,639 thousand in 2007.

Operating profit before taxes totaled NIS 1,072 thousand, compared with NIS 499 thousand in 2007, an increase of 115%.

The rate of return of operating profit before taxes on equity reached 11.3%, compared with 7.5% in 2007.

The provision for taxes on operating profit totaled NIS 253 thousand, compared with NIS 92 thousand in 2007.

Profit and Profitability – Acquiring Segment

The segment's loss totaled NIS 98 thousand, compared with NIS 119 thousand in 2007, a decrease of 18%.

The rate of negative return on equity in the segment reached 1.0% in 2008, compared with 1.8% in 2007.

Developments in Income and Expenses

The segment's income totaled NIS 53,376 thousand, compared with NIS 12,344 thousand in 2007, an increase of 332%, mainly resulting from an increase in the volume of transactions in credit cards acquired by the Company.

Operating income totaled NIS 52,889 thousand, compared with NIS 13,146 thousand in 2007, an increase of 302%.

Profit from financing activity before provision for doubtful debts totaled NIS 487 thousand, compared with a loss from financing activity before provision for doubtful debts of NIS 802 thousand in 2007.

Expenses, including receipts from banks, totaled NIS 53,504 thousand, compared with NIS 12,490 thousand in 2007, an increase of 328%.

Operating expenses, including interchange fees to other issuers, totaled NIS 50,129 thousand, compared with NIS 12,633 thousand in 2007, an increase of 297%. The increase resulted from the following factors:

- An increase in payments of interchange fees to other issuers, due to the increase in the volume of transactions in credit cards acquired by the Company and issued by foreign and local issuers.

- An increase in the Company's volume of activity.

Sales and marketing expenses totaled NIS 2,829 thousand, compared with NIS 2,266 thousand in 2007, an increase of 25%.

General and administrative expenses totaled NIS 5,709 thousand, compared with NIS 1,395 thousand in 2007, an increase of 309%, resulting from an increase in the Company's volume of activity.

Net receipts from banks: In 2008, the banks' participation in the surplus of expenses over income totaled NIS 5,231 thousand, compared with participation in the surplus of expenses over income in the amount of NIS 3,804 thousand in 2007.

Operating loss before taxes totaled NIS 128 thousand, compared with NIS 146 thousand in 2007, a decrease of 12%.

The rate of return of operating profit before taxes on equity reached 1.3%, compared with 2.2% in 2007.

The provision for taxes on operating profit totaled NIS 30 thousand, compared with NIS 27 thousand in 2007.

Profit and Profitability – Travelers' Checks Segment

The segment's net profit totaled NIS 4 thousand, compared with a loss of NIS 7 thousand in 2007.

Developments in Income and Expenses

The segment's income totaled NIS 693 thousand, compared with NIS 1,064 thousand in 2007, a decrease of 35%.

The segment's expenses totaled NIS 688 thousand, compared with NIS 1,072 thousand in 2007, a decrease of 36%.

The decrease in income and expenses resulted from the fact that the Company ceased issuing travelers' checks on January 1, 2008. The Company continues to acquire travelers' checks issued before that date.

Significant Accounting Policies

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

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

The main area in which estimates and evaluations were used, and which accordingly is considered by the Company to be a critical accounting matter:

Provision for doubtful debts – the financial statements include specific provisions for doubtful debts. The specific provisions fairly reflect, according to the assessment by Management, the loss inherent in debts whose collection is in doubt. In determining the fairness of the provision, Management relies, among other factors, on a risk assessment based on the information available to it with regard to debtors' financial condition and volume of activity, an evaluation of the collateral received from debtors, and past experience.

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

Economic Activity

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

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

Developments in the Global Economy

The global economy experienced severe turmoil over the last year, with the financial sector at the epicenter. The bursting of the real-estate bubble in the United States led to the exposure of immense losses in the global financial system in general and in the American system in particular. The value of financial assets, including asset-backed products and credit derivatives, dropped sharply, eroding the capital of the financial sector. The crisis escalated as of September 2008, with the collapse of the investment bank Lehman Brothers and the nationalization of mortgage agencies Fannie Mae and Freddie Mac and insurance giant AIG.

As of the end of 2008, most of the developed countries are in recession, while growth in the developing countries has slowed significantly. The International Monetary Fund estimates that GDP of the developed countries will contract by approximately 2% in 2009, as global GDP grows by just 0.5%, the lowest rate since World War II.

Economic policies globally are focused on support for the financial sector and incentives to encourage economic activity. Governments have injected large amounts of capital into major banks and financial institutions in order to maintain their stability. Still, normal activity has not resumed; credit-granting is paralyzed and risk premiums in the markets remain very high. The American government is buying "toxic assets" from the financial sector; meanwhile, an unprecedented fiscal incentive plan is on the agenda. Interest rates of central banks worldwide have reached very low levels, at 0.0%-0.25% in the United States, 2.0% in Europe, and 1.5% in England, as of January 2009. Budget deficits have grown, especially notably in the United States, which has applied the most aggressive policy.

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

Inflation and Exchange Rates

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

The shekel exchange rate also showed very high volatility during 2008. The shekel exchange rate against the dollar started the year at 3.846, reached 3.233 by May and ended the year at 3.802.

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

Fiscal and Monetary Policy

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

Monetary policy underwent many upheavals over the year, due to the significantly above-target inflation during the year alongside the signs of a slowdown in economic growth. During the fourth quarter, the interest rate was lowered from 4.25% in September to 2.25% in December. Interest-rate cuts continued in the first three months of 2009, to a low of 0.75% in March 2009. The sharp downturn in inflation allows for a highly expansive monetary policy, as in most of the world during this period. The interest-rate cuts may have a negative effect on the Company's financing income.

The Credit-Card Industry in Israel

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

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

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

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

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

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

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

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

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

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

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

Bank cards issued by the Company are bank cards distributed to owners of accounts at banks with which the Company has agreements, including Bank Hapoalim (the parent company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "**Banks Under Arrangement**").

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

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

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) brand image; (3) the collaboration with Bank Hapoalim in the distribution of credit cards, and collaborations with banking corporations for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) quality of customer service; (5) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (6) a technological level allowing response to changes and the development of new products; (7) a system of risk management and credit controls; (8) the ability to recruit and retain customers through a supporting marketing system; and (9) high-quality, experienced human capital.

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

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

Products and Services

As noted above, the Company issues Visa credit cards for use in Israel and abroad. The cards are issued as bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The various products and services offered through Isracard include various credit plans based on Credit plans; all-purpose loans and loans based on credit facilities in credit cards; various options for spreading payments; travel insurance; and information services and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling are allocated to the Issuance Segment.

The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer; (2) card fees – payments collected from cardholders according to a fee list, varying based on the type of card and on various promotional campaigns and exemptions; (3) deferred-debit fees – fees collected from cardholders in respect of transactions in which the merchant spreads the amount of the purchase into installments, or when the merchant defers the charge for the transaction beyond the nearest debit date; and (4) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS.

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

For details regarding the segmentation of income from credit-card transactions, see Note 20 to the financial statements. In addition, with regard to data on bank cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

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

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors. As of the date of the report, there are no cardholders whose rate of the volume of transactions executed in the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2008.

Marketing and Distribution

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

Competition

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

Competition over cardholders is apparent on several levels: registration of new customers (who do not own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; and competition for cardholders' "wallet" (which may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company (rather than cash and checks), while increasing the mix of products issued by the Company and/or increasing the volume of use of such products.

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

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

Positive factors affecting the Company's competitive standing include the following, among others: the licensing agreement with the Visa Organization for the issuance and acquiring of credit cards; the arrangement with Isracard for the management and operation of credit-card issuance and acquiring activity; the Company's image and brand; the Company's system of agreements with banks in Israel; the products and services offered to various types of customers; an advanced service system allowing a high quality of customer service; and professional, skilled, experienced human capital.

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

The Credit-Card Acquiring Segment

General

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

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

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, since the end of 2008 it has also offered merchants a range of financial services, advance payments, and discounting.

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

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

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

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

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

Substitutes for the products of the operating segment. Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from additional non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Products and Services

The Company acquires transactions with merchants which have entered into agreements with it, executed in Israel using Visa cards, mainly against the collection of a merchant fee. As noted, Isracard administers and operates credit-card acquiring activity on behalf of the Company.

The Company also offers marketing, financial, and operational services, such as sales-promotion campaigns, information regarding credits of the merchant, loans, discounting services for credit-card sales slips, and advance payment services; flexible crediting dates and options for payments in installments; and joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and from cash withdrawals by tourists in Israel were allocated to the Acquiring Segment.

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

For details regarding the segmentation of income from credit-card transactions, see Note 20 to the financial statements.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, as well as discounting companies, which enter into three-fold agreements: agreements with the Company, as an acquirer, for the provision of discounting services, and concurrently, agreements with merchants, which also have acquiring agreements with the Company. For this purpose, the discounting company is a customer of the Company for the provision of acquiring services, like any other merchant, and is counted quantitatively along with the merchants that have acquiring agreements with the Company.

As of the date of the report, the Company did not derive revenues from any particular merchant constituting 10% or more of its total revenues in 2008.

Marketing and Sales

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

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

Competition

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

For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above. Competition in the acquiring sector is focused on recruiting new merchants for acquiring agreements with the Company, retaining existing merchants as customers of the Acquiring Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

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

In order to cope with the competition in this sector, the Company, through Isracard, which administers and operates credit-card acquiring activity on behalf of the Company, takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to each merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems. The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as financing and loan services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the acquiring service provider, and in formulating the overall perception of the Company by merchants.

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

Negative factors affecting the Company's competitive standing include, among others, technological improvements that create the possibility of development of alternative means of payment in areas such as cellular phones, which may cause a decline in credit-card acquiring; and merchants' ability to switch acquirers in Visa and MasterCard brands at their discretion.

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

The Travelers' Checks Segment

Until December 2007, the Company issued Visa travelers' checks, mainly denominated in US dollars, and managed the inventory of checks and its delivery to bank branches. The company also acquired Visa travelers' checks, mainly denominated in US dollars.

In September 2007, Visa International notified the Company that its board of directors had decided to terminate the travelers' check sale program, effective September 30, 2008. The reasons for the decision, as the Company was informed, were the continual global decline in sales of travelers' checks and the cessation of sales of travelers' checks by several major issuers. Following this decision, the Company also decided to terminate the issuance of travelers' checks as of January 1, 2008. The Company continues to acquire travelers' checks issued prior to that date, at insignificant volumes.

The Company is responsible for allowing customers to redeem travelers' checks with no time limit, and therefore maintains a system of acquiring services for redeemed checks, including travelers' checks denominated in British pounds and German marks, the sale of which was terminated in the past, as well as for the financial management of funds received from the sale of the travelers' checks.

The main income item in this segment is interest income arising from deposits of funds from the sale of checks not yet redeemed. The main expenses in this segment are expenses for the operation of the acquiring system.

Seasonality

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

Intangible Assets

The Company holds a long-term license from the Visa Organization for the issuance and acquiring of Visa cards, and for the acquiring of Visa travelers' checks. In addition, as a member of the Visa Organization, the Company has a general right to use the brands owned by the Visa Organization.

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

Service Providers

As noted, under an arrangement between the Company and Isracard, Isracard administers and operates credit-card issuance and acquiring activity and travelers' checks activity on behalf of the Company. For further details, see "Contractual engagement between the Company and Isracard," above.

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

Beeri Printers – The Company, through Isracard, has contracted with Beeri Printers for the provision of production, printing, and binding services of the list of debits and credits sent by the Company to cardholders and merchants on a monthly basis. In the event of cancellation of the contractual engagement with Beeri Printers for an unforeseen reason, it would be difficult for the Company to obtain this service at the level currently provided. However, in the opinion of the Company, it would be possible to arrange to receive similar services from other companies.

Other Matters

In October 2007, Visa Inc. decided to carry out a structural change in which the Visa organization, Visa U.S.A., and Visa Canada became its subsidiaries. As part of this structural change, an initial allocation of shares to members of the Visa organization was performed, in which 1,956 shares of several types of the Visa organization were allocated to the Company, comprising approximately 0.0002% of all shares of the Visa organization at that time. The shares were allocated to the Company based on its membership in the Visa organization as an issuer of Visa travelers' checks.

The shares are non-transferable, except in certain cases established in the rules of the Visa organization.

Visa Inc. issued Class A shares to the public on the stock market in the United States in March 2008. As part of this process, in March 2008, the shares allocated to the Company as described above were converted by Visa Inc. into 2,040 Common Stock (Series I) C shares ("**C Shares**"). In March 2008, Visa Inc. redeemed 1,147 C Shares from the Company in consideration for USD 49 thousand (approximately NIS 173 thousand). As of the report date, the Company holds 893 C shares. C shares are not issued to the public and do not confer voting rights, except on certain matters. Furthermore, the shares are non-transferable for three years, with the exception of certain cases established in the rules of the Visa organization.

Financing

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

Taxation

For details regarding the Company's taxation status, see Note 25 to the Financial Statements.

Restrictions and Supervision of the Company's Operations

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

In addition, the Company is an "auxiliary corporation" under the Banking Law (Licensing). As a credit-card company and as an auxiliary corporation, a further system of rules, orders, and regulations applies to the Company, including: the Banking Law (Licensing); the Bank of Israel Law, 5714-1954; the Banking Ordinance; the Banking Law (Customer Service), 5741-1981 and the derived secondary legislation; and a system of directives, guidelines, and position statements of the Supervisor of Banks at the Bank of Israel.

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

In addition to the laws relevant to the Company's activity as an auxiliary corporation and as a credit-card company, various items of legislation apply to the Company which regularize its routine operations, including the Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Practices Law**"); the Interest Law, 5717-1957; the Agency Law, 5725-1965; the Control of Prices of Commodities and Services Law, 5718-1957; the Control of Commodities and Services Law, 5756-1996; and the Protection of Privacy Law, 5741-1981 and the subsequent regulations. For details regarding the SOX 404 directives, see the section "Controls and Procedures."

Antitrust Issues

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

The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal on October 30, 2006, under the terms formulated and agreed upon with the Antitrust Commissioner. According to its terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted a temporary permit for the Arrangement, in effect until April 30, 2009.

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

On November 11, 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it gave a verdict on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January 2009.

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

In May 2007, the Company signed a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of Visa and MasterCard cards, under temporary interchange-fee terms, as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards.

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

Additional Regulation

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

2. **Banking Law (Customer Service) (Amendment No. 12), 5767-2007** was enacted in July 2007. The amendment states, among other matters, that the Governor of the Bank of Israel is to establish, in rules, a list of services for which a banking corporation is permitted to charge fees from its customers, and the manner of calculation of the fees that may be charged for such services. Banking corporations will be permitted to charge fees only for the services included in the fee lists. It was further established that the Governor may declare services to be subject to supervision with regard to the fees charged and to determine the amount or rate of the fees. In December 2007, the Bank of Israel issued Banking Rules (Customer Service), Fees, 5768-2007, which establish rules including those described above. According to the fee schedule published, the Company ceased collection of some of the fees it formerly charged. Accordingly, the Company prepared an amended fee schedule, pursuant to the new rules established by the Bank of Israel. The new fee schedule was published in June 2008. The Company began to operate based on this fee schedule as of July 1, 2008.

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

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

   Public Reporting Directives on the subject of “Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses” (the “**Directive**”), for implementation by banking corporations and credit-card companies as of January 1, 2010, were issued in December 2007. According to the Directive, which is based on U.S. accounting standards and related regulatory directives of banking supervision agencies and the Securities and Exchange Commission, among other sources, banking corporations and credit-card companies will be required to maintain appropriate provisions to cover estimated credit losses with respect to the credit portfolio, to be assessed using one of two methods: “individual provision” and “group provision.” An “individual provision for credit losses” is to be implemented for all debts where the contractual balance (without deducting accounting write-offs that do not involve accounting waivers, unrecognized interest, provisions for credit losses, and collateral) is NIS 1 million or more, and for other debts identified by the company for individual assessment and for which the provision for decline in value is not included in the “specific provision for credit losses assessed on a group basis.” For the purposes of the assessment on an individual basis, the required provision is to be measured based on the current value of expected future cash flows, discounted at the effective interest rate of the debt; or, for debts contingent upon collateral, or when the company determines that seizure of an asset is expected, according to the fair value of the collateral placed under lien to secure the credit. A “specific provision for credit losses assessed on a group basis” will be implemented for provisions for the decline in value of large groups of homogenous small debts, and in respect of debts examined individually and found to be unimpaired.

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

The Directive is to be implemented in the financial statements of banking corporations and credit-card companies from the statements dated January 1, 2010 forward. The Directive is not to be implemented retroactively in financial statements for previous periods. Adjustments of the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments as of January 1, 2010 to the requirements of the Directive, including requirements to establish provisions and documentation requirements, are to be included directly in the “retained earnings” item under shareholders’ equity.

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

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

Legal Proceedings

Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants’ arguments is low.

Contingent Liabilities

Indemnification of directors: The Company has undertaken a commitment to indemnify directors of the Company. The amount of the indemnification to be provided by the Company under this commitment to all directors of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its shareholders' equity, according to its financial statements published most recently at the date of the actual indemnification.

Objectives and Business Strategy

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

1. Improving the level of revenues and profitability.

2. Expansion of the distribution and sales-promotion base.
3. Extending collaborations with merchants.
4. Ongoing improvement in the quality of service.
5. Targeted actions to create customer preference for the credit cards issued by the Company.
6. Expansion in the area of credit and financing for merchants.

Risk Management Policy

The Company's activity involves various financial risks: credit risks, which represent the risk that a client or merchant will default on scheduled payments as defined in the agreement with the borrower; market risks deriving from exposure to changes in exchange rates and inflation; and liquidity risks. In addition, the Company is exposed to operational risks, which refer to losses arising from faulty processes, human actions, system failures, and external events.

According to a decision of Management, each member of Management manages operational risk in the area of activity for which he or she is responsible. In addition, the Head of Finance and Administration is responsible for market and liquidity risks, and the Head of Credit and Financial Services is responsible for credit risks. A Chief Risk Controller has also been appointed at the Company.

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

Operational Risks

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

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

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

The Company's market risk management policy is in the final stages of reformulation and adjustment to the requirements of the Basel II directives. This policy includes limits on financial exposures. The limits are aimed at reducing the damage that may be caused by changes in the various markets, foreign currency, and the CPI.

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

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

A. Currency exposure (including CPI)

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

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

The Company usually invests its disposable capital in deposits with banks, in shekels.

B. Interest-rate exposure

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

Interest-rate exposure exists only in the shekel segment, as it is the only segment with assets at fixed interest rates. The Company believes that its exposure to changes in interest rates is immaterial.

Balances of credit in respect of which exposures to changes in interest rates exist as of December 31, 2008 amount to NIS 22 million. A 1% increase in the interest rate would cause a loss of NIS 28 thousand in prices discounted for that date.

C. Liquidity risk

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

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

This policy is attained by conducting ongoing monitoring of the liquidity position of the Company. The Company is in the final stages of the process of finding a computerized system for the administration of monitoring liquid means under its ownership and the liquidity risk to which it is exposed at any time.

The liquidity position of the Company is examined by measuring the liquidity gap between total liquid assets and total liquid liabilities, primarily in the short term, and the existence of the means to bridge this gap, mainly through loans from Isracard.

D. Derivative financial instruments

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

2. Policy Execution and Control of Market-Risk Management

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

Credit Risks

The Company's policy is based on diversification of the credit portfolio and controlled risk management.

The credit-management system relies on the delegation of credit authority at different levels. In addition, rules have been established for granting credit. The overall responsibility for direct handling of customers rests with several authorized parties, leading to improved capability to manage credit risks and monitor and control the credit-granting process. The Company regularly invests resources in training employees responsible for making decisions and assessing risks in the area of credit, and in improving the computerized control tools and information systems available to them. As part of this process, credit-decision support systems for corporate customers have been implemented.

Credit Risk Management Unit

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

Provision for Doubtful Debts

The provision for doubtful debts includes a specific provision. The specific provision reflects the loss inherent in debts created, the collection of which is in doubt. In determining the amount of the provision, the Company relies, among other factors, on information available to it regarding debtors' financial position and volume of activity, an evaluation of collateral received from them, and past experience. The Company is also preparing for the implementation of the Public Reporting Directives on the subject of the measurement and disclosure of impaired debts, credit risk, and provision for credit losses.

Credit Exposure to Foreign Financial Institutions

The Company has exposure to the international organization Visa Inc. in respect of balances of volumes of transactions executed by tourists in Israel, less balances of volumes of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization. The aforesaid balances are in respect of transaction volumes of just a few days, and are not material.

Capital Adequacy

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

Basel II

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

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

The Basel II recommendations consist of three pillars:

- Pillar I: Minimum capital adequacy, with reference to credit, market, and operational risk levels.
- Pillar II: Establishment of a system for management and control of the various risks, including supporting systems, risk management and control policy documents, and the internal capital adequacy assessment process (ICAAP).
- Pillar III: Reporting on the subjects covered by the Basel II directives.

Prevention of Money Laundering and Terrorism Financing

The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations) (Amendment), 5767-2006 applied the provisions of the Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 5761-2001 to credit-card companies as auxiliary corporations.

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

In the area of merchants, the process of receiving information and documents required under the Money Laundering Prohibition Order from merchants whose accounts were opened prior to the inception of the Order continues; this process is expected to be completed in March 2009, as required by the Order. Computerized control systems for the receipt of identifying information of merchants have also been specified and planned.

In the area of charge-card issuance, computerized control systems have been specified and planned for processes involved in customer identification, verification of customer information, receipt of documents, and delivery of charge cards. The training system has been expanded and improved. The reporting system, which is the basis for reports to the Israel Money Laundering Prohibition Authority, has been expanded, and new reports have been defined on the system for alerts of unusual transactions. The Company's procedures were updated and expanded in order to fully cover all topics in accordance with legal requirements.

Discussion of Risk Factors

Risk factor	Brief description	Effect
Overall effect of credit risks and borrower quality	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability and quality of borrowers may have an adverse effect on asset value, the Company's profitability, and the probability of collecting the credit. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Minor
Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Minor

Risk factor	Brief description	Effect
Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and control of compliance with these limits is carried out routinely.	Minor
Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's income and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in income.	Minor
Liquidity risk	Present or future risk to the Company's income and capital arising from an inability to supply its liquidity needs. In exceptional demand and supply situations in the financial markets, unplanned costs may be incurred in raising resources.	Minor
Operational risk	Present or future risk to the Company's income and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and risk to reputation. Failures related to one of the aforesaid factors may cause possible damage to profitability. See also "Dependence on Isracard," below.	Minor
Legal risk	Present or future risk to the Company's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability. The Company is aided by a system of legal counsel.	Minor
Reputation risk	Damage to the Company's reputation and brands in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Minor

Risk factor	Brief description	Effect
Dependence on Isracard	The Company is materially dependent on Isracard, which manages and operates credit-card issuance and acquiring activity on behalf of the Company, in accordance with the arrangement between the parties. The Company does not possess systems for the operation of credit-card issuance and acquiring activities. Termination of the contractual engagement with Isracard would require the Company to contract with another entity for the provision of services, or to perform material monetary investments in the acquisition and development of operational systems.	Major
Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected, among other things, in the loss of customers and/or reduction of customers' activity volumes, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants). The operation of the Technical Interface led to an increase in competition in the acquiring segment, as it allows merchants to switch acquirers in the MasterCard and Visa brands at their discretion.	Major
Regulation and legislation	Present or future risk to the Company's income and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, income, and ability to offer certain services, and/or may obligate technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Major
Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Major
Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Minor

Risk factor	Brief description	Effect
Forgery, fraud, and embezzlement	The Company's area of activity is characterized by continual attempts at forgery and fraud, including credit-card fraud, attempts to penetrate databases, abuse of credit cards, and more. See also "Dependence on Isracard," above.	Medium
Cessation of operation of a bank in Israel	The cessation of operation of one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Major
Cessation of operation of an international credit-card organization	The cessation of operation of the Visa organization may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the member companies of the Company and/or of Bank Hapoalim could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Major
Technological changes	Technological changes leading to material developments in the areas of issuance and/or acquiring, or the development of new products in these areas, may change the Company's business model and exert an adverse effect on its business results. Failure to keep up with the pace of technological changes could reduce the use of the Company's credit cards and lead to damage to its income.	Minor
Dependence on a material supplier	The Company, like the other credit-card companies in Israel, is materially dependent on ABS, which operates a system for the collection of transactions executed in credit cards in Israel for these companies, operates the local interface, and operates the Inter-Bank Settlement Center (Masav).	Major
Termination of contractual engagements with banks	The termination of the contractual engagement or substantial reduction of activity with some of the Banks Under Arrangement could lead to material damage to the Company's reputation and business results.	Major

Disclosure Regarding the Internal Auditor

The Company receives internal audit services from Bank Hapoalim.

Mrs. Orit Lerer has served as Internal Auditor of the Company since March 25, 2004. Mrs. Lerer has worked at Bank Hapoalim since 1977, and is employed there full-time. She holds a B.A. degree in Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mrs. Lerer meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

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

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

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

The Internal Auditor is not remunerated by the Company. Auditing is supplied through outsourcing, and the Company pays for the internal auditing services based on the number of work days of the auditors. In the opinion of the Board of Directors, the aforesaid payments are not such that would affect the professional judgment of the Internal Auditor.

Approximately 40 audit days were invested at the Company in 2008. The volume of manpower in internal auditing is determined according to a multi-year work plan, which is based on a risk survey.

Internal auditing operates in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2008 was derived from the multi-year work plan, which is based on the following, among other things: risk assessment at audited units; audit rounds; and findings discovered in previous audits.

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

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

Internal auditing operates under laws, regulations, directives and guidelines of the Supervisor of Banks, professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Board of Directors' Audit Committee and of the Board of Directors.

Having examined the internal audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that internal auditing at the Company complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Internal auditing is performed by auditors who are employees of Bank Hapoalim. Internal Audit has unrestricted access to all information at the Company, including constant unmediated access to the Company's information systems, including financial data, as necessary to perform its duties.

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

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

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

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

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

The Board of Directors

In 2008, the Board of Directors of the Company continued to set forth the Company's policy and the guiding principles for its activity and establish directives on various matters.

9 meetings of the Board of Directors and 8 meetings of the Audit Committee were held in 2008.

Directors with Accounting and Financial Expertise

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

Members of the Board

Irit Izakson

Acting Chairperson of the Board of the Company as of December 30, 2008.

Also serves as Acting Chairperson of Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

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

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

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

Also a member of the board of directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Housing and Construction Holdings Ltd., Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., and I.D.B. Development Ltd.

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

In the last five years, or during part of that period, served as a director at the following companies: Koor Industries Ltd., Meshulem Levinstein Ltd., Eurocom Communications Ltd., and Nisko Industries Ltd. (external director); however, she no longer serves at these companies.

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

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Dan Dankner

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

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

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

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

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

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

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

Chairman of the Administrative Board of the Peretz Naftali Fund.

President of Beterem.

Also a member of the board of directors of the following companies: Europay (Eurocard) Israel Ltd., the Company, Poalim Express Ltd., Bank Hapoalim (Switzerland) Ltd., Adam Dan Ltd., Atlit Food Cooling Ltd., and Sea Gate Mariculture Ltd.

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

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

Served as Chairman of the Board of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. from October 30, 2002 to September 25, 2008.

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

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

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

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

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

Director with accounting and financial expertise.

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

Haim Krupsky

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

Member of the Board of Directors of the Company as of August 15, 1994.

Also serves as Deputy Chairman of the Board at the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

Chairman of the Board of Directors of Tzameret Mimunim Ltd.

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

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

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

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

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

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

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

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

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

Director with accounting and financial expertise.

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

Tamar Ben-David	Attorney, Gross, Kleinhendler, Hodak, Berkman, & Co. Law Offices. Member of the Board of Directors of the Company as of September 28, 2005. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of the following companies: Deutsche Securities Israel Ltd., Isracard Ltd., and Europay (Eurocard) Israel Ltd. Member of the audit committees of Isracard Ltd. and Europay (Eurocard) Israel Ltd. In the last five years or during part of that period, served as a director at Blue Square Israel Ltd., Cellcom Ltd., and Investec Asset Management Ltd.; however, she no longer serves at these companies. L.L.B., Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Ms. T. Ben-David, she is not a family member of another interested party of the corporation.
Amiel Gurt	Retiree and attorney in independent practice. Member of the Board of Directors of the Company as of July 28, 1981. Employed as an attorney at Bank Hapoalim B.M. until December 31, 2004. Member of the Administrative Board of the Israel – Australia, New Zealand, and Oceania Chamber of Commerce. Member of the Administrative Board of the Gurt Foundation. LL.M., Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. A. Gurt, he is not a family member of another interested party of the corporation.
Jacky Wakim	Member of the Board of Directors of the Company as of March 12, 2009.

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

Also a member of the board of directors of the following companies: Mifal Hapayis, Local Government Economic Services Insurance Agency (1992) Ltd., Local Government Economic Services Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd. Member of the Advisory Council to the Bank of Israel.

Member of the Audit Committee of the Company.

Also a member of the audit committees of Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

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

M.B.A.

B.A. in Economics and Accounting.

L.L.B.

C.P.A.

Director with accounting and financial expertise.

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

Eldad Kahana

Attorney, Legal Counsel Area, Bank Hapoalim B.M.

Member of the Board of Directors of the Company as of November 15, 2006.

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

Also a member of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd.; and of the audit committees of these companies.

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

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

Ronny Shaten

Chairman and member of the boards of directors of various companies.

Member of the Board of Directors of the Company as of September 28, 2005.

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

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

Also a member of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., UTI Logistics Israel Ltd., Exel – Multi Purpose Logistics Ltd., Overseas Commerce Ltd., Exel M.P.L. – A.V.B.A. Ltd., (I.Z.) Queenco Ltd.

Member and chairman of the audit committees of the boards of directors of Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

Chairman of the board of directors of Super Plast Ltd.

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

Studied Business Administration.

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

Yacov Rozen

Served as a member of the Board of Directors of the Company from August 10, 2006 to April 14, 2008.

Barry Ben-Zeev

Served as a member of the Board of Directors of the Company from May 26, 2008 to December 30, 2008.

Senior Members of Management

Dov Kotler

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

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

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

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

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

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

AMP (Advanced Management Program), Harvard University.

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

Haim Krupsky

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

Also serves as deputy chairman of the board at the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

Chairman of the board of directors of Tzameret Mimunim Ltd.

Director of Store Alliance Com Ltd.

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

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

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

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

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

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

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

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

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

Eli Burg

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

Head of Trade and Sales.

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

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

Ronen Zaretsky

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

Head of Information Technology and Operations.

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

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

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

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

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

David Cohen

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

Head of Customer Relations.

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

Alberto Langa

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

Head of Security.

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

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

Pinhas Shalit

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

Head of Finance and Administration.

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

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

C.P.A.

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

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

Ami Alpan

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

Head of Strategic Planning.

Serves as a member of the board of directors of the following companies: I.M.T. (as of December 12, 2008), Life Style Customer Loyalty Club Ltd., and Life Style Financing Ltd. (as of January 14, 2009).

M.B.A., Tel Aviv University.

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

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

David Doron

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

Head of Human Resources and Organization.

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

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

Ron Cohen

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

Head of Credit and Financial Services.

Served as Head of Customer Relations at the Corporate Area, Bank Hapoalim B.M.

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

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

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

Moshe Livnat

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

Head of Marketing and Public Relations.

B.A. in Economics and Business Administration, Haifa University.

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

Ayala Tidhar

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

Head of Advertising, Head of Local Cards Unit.

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

Diploma in Interior Decorating, Technion.

Arieli School of Marketing and Advertising.

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

Controls and Procedures

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

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

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

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

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

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

The key points of the directive are:

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

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

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

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

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

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

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

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

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, have assessed the effectiveness of the controls and procedures regarding disclosure at the Company as of the end of the period covered by this report. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the Company have concluded that, as of the end of this period, the controls and procedures regarding disclosure at the Company are effective in order to record, process, summarize, and report the information which the Company is required to disclose in its quarterly report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Internal Control of Financial Reporting

During the fourth quarter ended on December 31, 2008, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of financial reporting.

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

Tel Aviv, March 12, 2009

Wages and Benefits of Officers

As part of the Company's participation in joint costs of Isracard and the Company, the Company also bears the relative cost of the wages of officers.

This cost is charged to the Company as a general amount, and cannot be attributed specifically to individual officers. The payment of wages to the officers is performed by Isracard, which operates the activity of the Company, as noted.

Remuneration of Auditors(1)(2)

	2008	2007
	In NIS thousands	
For audit activities(3):		
Joint auditors	10	3
For tax services(5):		
Joint auditors	1	*-
Total		
Total remuneration of auditors	**11**	**3**

* Amount lower than NIS 0.5 thousand.

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

(2) Includes remuneration paid and remuneration accrued.

(3) Audits of annual financial statements and reviews of interim reports.

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

Aminit Ltd.

Management's Review

For the Year Ended December 31, 2008

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Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS thousands

	December 31			
	2008	**2007**	**2006**	**2005**
Assets				
Cash on hand and deposits with banks	39,113	25,909	22,629	24,822
Debtors in respect of credit-card activity	432,026	**215,648	10,638	9,852
Securities	*-	-	4,321	9,360
Computers and equipment	77	105	-	-
Other assets	1,012	*920	811	816
Total assets	**472,228**	**242,582**	**38,399**	**44,850**
Liabilities				
Credit from banking corporations	7	24	858	54
Travelers' checks in circulation, net	13,536	15,766	18,842	21,578
Creditors in respect of credit-card activity	406,484	**198,676	3,361	3,481
Other liabilities	29,615	**21,304	8,807	13,501
Total liabilities	**449,642**	**235,770**	**31,868**	**38,614**
Shareholders' equity	22,586	6,812	6,531	6,236
Total liabilities and capital	**472,228**	**242,582**	**38,399**	**44,850**

* Amount lower than NIS 0.5 thousand.

** Reclassified.

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS thousands

	For the year ended December 31			
	2008	**2007**	**2006**	**2005**
Income				
From credit-card transactions	61,789	*17,982	6,245	5,898
Profit from financing activity before provision for doubtful debts	1,180	262	210	1,076
Others	174	*-	*-	4
Total income	**63,143**	**18,244**	**6,455**	**6,978**
Expenses				
Provision for doubtful debts	68	-	-	-
Operating expenses	53,770	16,509	4,536	4,635
Sales and marketing expenses	7,553	4,969	658	1,118
General and administrative expenses	6,388	2,097	935	687
Payments to banks (receipts from banks)	(5,634)	(5,676)	(188)	70
Total expenses	**62,145**	**17,899**	**5,941**	**6,510**
Operating profit before taxes	998	345	514	468
Provision for taxes on operating profit	224	64	219	131
Net profit	**774**	**281**	**295**	**337**
Net profit per common share (in NIS)*	**312**	**141**	**141**	**169**

* Reclassified.

Rates of Income and Expenses

Addendum 3

Unlinked Israeli Currency

	2008		
	Average balance[1]	Financing income (expenses)[1]	Rate of income (expenses)
	NIS thousands		Percent
Assets[1]	19,449	2,256	11.60
Total assets	**19,449**	**2,256**	**11.60**
Liabilities	(24,948)	(637)	2.55
Total liabilities	**(24,948)**	**(637)**	**2.55**
Interest-rate gap			**9.05**

Foreign Currency

	2008		
	Average balance[1]	Financing income (expenses)[1]	Rate of income (expenses)
	NIS thousands		Percent
Assets[1]	12,942	4,315	33.34
Total assets	**12,942**	**4,315**	**33.34**
Liabilities	(16,152)	(4,755)	29.44
Total liabilities	**(16,152)**	**(4,755)**	**29.44**
Interest-rate gap			**3.9**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Total

	2008		
	Average balance(1)	Financing income (expenses)(1)	Rate of income (expenses)
	NIS thousands		Percent
Monetary assets generating financing income	32,391	6,571	20.29
Total assets	**32,391**	**6,571**	**20.29**
Monetary liabilities generating financing expenses	(41,100)	(5,392)	13.12
Total liabilities	**(41,100)**	**(5,392)**	**13.12**
Interest-rate gap			**7.17**
Profit from financing activity after provision for doubtful debts		**1,180**	

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	2008
	Average balance(1)
	NIS thousands
Monetary assets generating financing income	32,391
Other monetary assets	328,765
Total assets	**361,156**
Monetary liabilities generating financing expenses	(41,100)
Other monetary liabilities	(312,359)
Total monetary liabilities	**(353,459)**
Total surplus of monetary assets over monetary liabilities	7,697
Non-monetary assets	755
Non-monetary liabilities	(54)
Total capital means	**8,398**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency (including Israeli currency linked to foreign currency)

	2008		
	Average balance[(1)]	**Financing income (expenses)[(1)]**	**Rate of income (expenses)**
	USD thousands		**Percent**
Monetary assets in foreign currency generating financing income	3,625	1,209	33.34
Total assets	**3,625**	**1,209**	**33.34**
Monetary liabilities in foreign currency generating financing expenses	(4,524)	(1,332)	29.44
Total liabilities	**(4,524)**	**(1,332)**	**29.44**
Interest-rate gap			**3.9**

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

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

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

Addendum 4

Reported amounts

In NIS thousands

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	39,113	25,663	21,328	32,884
Debtors in respect of credit-card activity	432,026	**430,038	**332,700	**280,234
Securities	*-	*-	*-	*-
Computers and equipment	77	84	91	98
Other assets	1,012	**700	**858	**1,655
Total assets	**472,228**	**456,485**	**354,977**	**314,871**
Liabilities				
Credit from banking corporations	7	14	2	9
Travelers' checks in circulation, net	13,536	12,602	12,771	13,902
Creditors in respect of credit-card activity	406,484	**403,774	**310,160	**266,269
Other liabilities	29,615	**32,770	**24,912	**27,675
Total liabilities	**449,642**	***449,160**	**347,845**	**307,855**
Shareholders' equity	22,586	7,325	7,132	7,016
Total liabilities and capital	**472,228**	**456,485**	**345,977**	**314,871**

* Amount lower than NIS 0.5 thousand.

** Reclassified.

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

Addendum 4 (cont.)

Reported amounts

In NIS thousands

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	25,909	28,982	36,792	27,252
Debtors in respect of credit-card activity*	215,648	136,627	13,333	9,923
Securities	-	-	-	-
Computers and equipment	105	113	115	-
Other assets*	920	616	726	679
Total assets	**242,582**	**166,338**	**50,966**	**37,854**
Liabilities				
Credit from banking corporations	24	38	275	178
Travelers' checks in circulation, net	15,766	16,948	18,131	18,105
Creditors in respect of credit-card activity*	198,676	126,090	14,587	3,287
Other liabilities*	21,304	16,502	11,266	9,685
Total liabilities	**235,770**	**159,578**	**44,259**	**31,255**
Shareholders' equity	6,812	6,760	6,707	6,599
Total liabilities and capital	**242,582**	**166,338**	**50,966**	**37,854**

* Reclassified.

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 5

Reported amounts

In NIS thousands

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	17,662	*17,659	*14,721	*11,747
Profit from financing activity before provision for doubtful debts	724	*348	*112	(4)
Others	(1)	*(2)	*2	*175
Total income	**18,385**	**18,005**	**14,835**	**11,918**
Expenses				
Provision for doubtful debts	68	-	-	-
Operating expenses	15,302	15,001	13,138	10,329
Sales and marketing expenses	1,966	1,600	2,379	1,608
General and administrative expenses	1,885	2,157	1,317	1,029
Net receipts from banks	(1,187)	(1,027)	(2,158)	(1,262)
Total expenses	**18,034**	**17,731**	**14,676**	**11,704**
Operating profit before taxes	351	274	159	214
Provision for taxes on operating profit	90	81	43	10
Net profit	**261**	**193**	**116**	**204**
Basic diluted net profit per common share (in NIS)**	**66**	**96**	**58**	**102**

* Reclassified.

** See Note 14A – "Capital Adequacy Based on the Directives of the Supervisor of Banks."

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

Addendum 5 (cont.)

Reported amounts

In NIS thousands

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	*8,904	5,632	1,923	1,523
Profit from financing activity	169	(203)	162	134
Others	*(1)	-	1	-
Total income	**9,072**	**5,429**	**2,086**	**1,657**
Expenses				
Operating expenses	8,915	4,947	1,389	1,258
Sales and marketing expenses	2,343	1,886	618	122
General and administrative expenses	882	708	276	231
Net receipts from banks	(3,130)	(2,153)	(314)	(79)
Total expenses	**9,010**	**5,388**	**1,969**	**1,532**
Operating profit before taxes	62	41	117	125
Provision for taxes on operating profit	10	(12)	9	57
Net profit	**52**	**53**	**108**	**68**
Basic diluted net profit per common share (in NIS)**	**26**	**27**	**54**	**34**

* Reclassified.

** See Note 14A – "Capital Adequacy Based on the Directives of the Supervisor of Banks."

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Aminit Ltd. (the "**Company**") for 2008 (the "**Report**").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures for the required disclosure in the Company's Report; furthermore:

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

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

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

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

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

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

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

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

Dov Kotler

Tel Aviv, March 12, 2009

Chief Executive Officer

Certification

I, Ita Lampert, hereby declare that:

1. I have reviewed the annual report of Aminit Ltd. (the "**Company**") for 2008 (the "**Report**").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures for the required disclosure in the Company's Report; furthermore:

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

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

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

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

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

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

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

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

Ita Lampert

Tel Aviv, March 12, 2009

Manager of Finance and Accounting Department,
Chief Accountant

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

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

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control of financial reporting as of December 31, 2008, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, Management believes that as of December 31, 2008, the Company's internal control of financial reporting is effective.

The effectiveness of the Company's internal control of financial reporting as of December 31, 2008 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 86. The auditors' report includes an opinion with regard to the effectiveness of the Company's internal control of financial reporting as of December 31, 2008.

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

Tel Aviv, March 12, 2009

Aminit Ltd.

Financial Statements

For the year ended December 31, 2008

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KPMG

Somekh Chaikin

BDO
ZIV HAFT

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

We have audited the internal control over financial reporting of Aminit (hereinafter – "the Company") as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States), as adopted by the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a company over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a company over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with accepted auditing standards, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973, and auditing standards applied in the audit of banking corporations as determined by guidelines of the Supervisor of Banks, the accompanying balance sheets of the Company as of December 31, 2008 and 2007 and the related statements of profit and loss, statement of changes in shareholders' equity and statements of cash flows of the Company for each of the years in the three-year period ended on December 31, 2008, and our report dated March 12, 2009, expressed an unqualified opinion on the said financial statements.

Somekh Chaikin
Certified Public Accountants (ISR)

Ziv Haft
Certified Public Accountants (ISR)

Tel Aviv, March 12, 2009

Auditors' Report to the Shareholders of Aminit Ltd. – Annual Financial Statements

We have audited the accompanying financial statements of Aminit Ltd. (hereinafter: "the Company"): Balance Sheets as at December 31, 2008 and 2007 and the related statements of profit and loss, shareholders' equity and cash flows, for each of the three years, in the period which ended December 31, 2008. These financial statements are at the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) 1973, and auditing standards which application in auditing credit-card companies was enforced by the Supervisor of Banks. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of operations, changes in shareholders' equity and the cash flows for each of the three years, in the period which ended December 31, 2008, in conformity with Generally Accepted Accounting Principles in Israel. Furthermore, in our opinion, these statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited in accordance with standards prescribed by the Public Company Accounting Oversight Board (United States) (PCAOB), as adopted by the Supervisor of Banks, the internal control of the Company over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2009, expressed an unqualified opinion on the maintenance of an effective internal control at the Company.

Ziv Haft

Certified Public Accountants (Isr.)

Somekh Chaikin

Certified Public Accountants (Isr.)

Tel-Aviv, March 12, 2009

Balance Sheets

Reported amounts

In NIS thousands

		December 31	
	Note	2008	2007
Assets			
Cash on hand and deposits with banks	3	39,113	25,909
Debtors in respect of credit-card activity	4, 5, 6	432,026	**215,648
Securities	7	*-	-
Computers and equipment	8	77	105
Other assets	9	1,012	**920
Total assets		**472,228**	**242,582**
Liabilities			
Credit from banking corporations	10	7	24
Travelers' checks in circulation, net	11	13,536	15,766
Creditors in respect of credit-card activity	12	406,484	**198,676
Other liabilities	13	29,615	**21,304
Total liabilities		**449,642**	**235,770**
Contingent liabilities and special agreements	17		
Shareholders’ equity	14	22,586	6,812
Total liabilities and capital		**472,228**	**242,582**

* Amount lower than NIS 0.5 thousand.

** Reclassified.

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

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

Tel Aviv, March 12, 2009

Statements of Profit and Loss

Reported amounts

In NIS thousands

	Note	For the year ended December 31		
		2008	2007	2006
Income				
From credit-card transactions(1)	20	61,789	*17,982	*6,245
Profit from financing activity before provision for doubtful debts	21	1,180	262	210
Others		174	*-	*-
Total income		**63,143**	**18,244**	**6,455**
Expenses				
Provision for doubtful debts	5	68	-	-
Operating expenses	22	53,770	16,509	4,536
Sales and marketing expenses	23	7,553	4,969	658
General and administrative expenses	24	6,388	2,097	935
Net receipts from banks	17F	(5,634)	(5,676)	(188)
Total expenses		**62,145**	**17,899**	**5,941**
Operating profit before taxes		**998**	**345**	**514**
Provision for taxes on operating profit	25	224	64	219
Net profit		**774**	**281**	**295**
Basic diluted net profit per common share (in NIS)**		**312**	**141**	**141**
Number of shares used in calculation**		2,481	2,000	2,000

(1) Income from merchant fees is stated without offsetting fees to other issuers, which are stated separately as part of operating expenses (see Note 22).

See also Note 2 – "Accounting Policies."

* Reclassified.

** See Note 14A – "Capital Adequacy Based on the Directives of the Supervisor of Banks."

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS thousands

	Share capital	Premium on shares	Capital reserves in respect of share-based payment transactions	Total capital and capital reserves	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2006	**841**	**-**	***-**	**841**	**5,395**	**6,236**
Net profit	-	-	-	-	295	295
Benefit for share-based payment transactions	-	-	*-	*-	-	*-
Balance as of Dec. 31, 2006	**841**	**-**	***-**	**841**	**5,690**	**6,531**
Net profit	-	-	-	-	281	281
Benefit for share-based payment transactions	-	-	*-	*-	-	*-
Balance as of Dec. 31, 2007	**841**	**-**	***-**	**841**	**5,971**	**6,812**
Net profit	-	-	-	-	774	774
Share issuance	4	14,996	-	15,000	-	15,000
Benefit for share-based payment transactions	-	-	*-	*-	-	*-
Balance as of Dec. 31, 2008	**845**	**14,996**	***-**	**15,841**	**6,745**	**22,586**

* Amount lower than NIS 0.5 thousand.

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

Statement of Cash Flows

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	2007	2006
Cash flows from operating activity			
Net profit for the year	774	281	295
Adjustments required to present operating cash flows:			
Loss from realization and adjustment of securities available for sale and held to maturity	-	61	599
Revaluation of deposits with banking corporations	161	1,485	3,961
Depreciation	28	10	-
Deferred taxes, net	5	(106)	-
(Increase) decrease in other assets	(97)	*(3)	5
Increase (decrease) in other liabilities	8,311	*12,497	(4,694)
Net cash from operating activity	**9,182**	**14,225**	**166**
Cash flows for activity in assets			
Deposits with banks	(17,274)	(15,078)	(19,655)
Withdrawal of deposits from banks	19,608	12,358	13,751
Acquisition of fixed assets	-	(115)	-
Increase (decrease) in other debtors in respect of credit-card activity, net	(216,378)	*(205,010)	(786)
Proceeds of realization of securities for trading	-	4,260	4,440
Net cash for activity in assets	**(214,044)**	**(203,585)**	**(2,250)**
Cash flows from activity in liabilities			
Short-term credit from banking corporations, net	(17)	(834)	804
Decrease in travelers' checks in circulation	(2,230)	(3,076)	(2,736)
Increase (decrease) in creditors in respect of credit-card activity, net	207,808	*195,315	(120)
Issuance of share capital	15,000	-	-
Net cash from activity in liabilities	**220,561**	**191,405**	**(2,052)**
Increase (decrease) in cash and cash equivalents	**15,699**	**2,045**	**(4,136)**
Balance of cash and cash equivalents at beginning of year	**9,765**	**7,720**	**11,856**
Balance of cash and cash equivalents at end of year	**25,464**	**9,765**	**7,720**

* Reclassified.

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

Note 1 – General

A. Aminit Ltd. (the "**Company**") was established in 1979 and is under the full ownership of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 5741-1981.

B. The Company issues and acquires Visa credit cards. Isracard Ltd. ("Isracard"), a sister company, operates the Company's credit-card system on behalf of the Company. An agreement is in place between the Company and Isracard for that purpose, regularizing the manner of account settlement between the parties (see Note 17G).

C. Until December 2007, the Company acquired and issued Visa travelers' checks, mainly denominated in US dollars. In September 2007, the Visa Organization notified the Company that its board of directors had decided to terminate the travelers' check sale program, effective September 30, 2008.

   Following this decision, the Company also decided to terminate the issuance of travelers' checks as of January 1, 2008. The Company continues to acquire travelers' checks issued prior to that date.

D. The financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks with regard to financial reporting by credit-card companies, opinion statements by the Institute of Certified Public Accountants in Israel, and accounting standards issued by the Israel Accounting Standards Board.

Note 2 – Reporting Rules and Significant Accounting Policies

A. Definitions

In these financial statements:

1. The Company – Aminit Ltd.
2. The Parent Company – Bank Hapoalim B.M.
3. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel.
4. Interested parties – As defined in Paragraph (1) of the definition of an "interested party" of a corporation in Section 1 of the Securities Law.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

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

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

7. USD – United States dollar.

8. Adjusted amount – Nominal historical amount adjusted in accordance with the directives of Opinion Statements No. 23 and 34 and Opinion Statements No. 36 and 37.

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

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

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

12. Fair value – The amount at which an asset can be replaced or a liability can be extinguished in a transaction between a voluntary buyer and a voluntary seller acting rationally and without the influence of special relationships between the parties.

B. Financial Statements in Reported Amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements for Inflation." In accordance with this standard, and in accordance with Accounting Standard No. 17 of December 2002, the adjustment of financial statements ceased as of January 1, 2004. The adjusted amounts appearing in the financial statements for December 31, 2003 were used as a starting point for nominal financial reporting as of January 1, 2004. Until December 31, 2003, the Company's financial statements were prepared based on historical cost adjusted for changes in the general purchasing power of Israeli currency (Note 24 includes a summary of the Company's data in nominal historical values).

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

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

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

B. Financial Statements in Reported Amounts (cont.)

4. Balance sheets:

   Non-monetary items are presented in reported amounts.

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

5. Statements of profit and loss:

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

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

C. Cash on Hand and Deposits with Banks

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

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, which is usually based on stock-market rates. Unrealized profits or losses from adjustment to fair value net of tax are recorded directly in a separate item within shareholders' equity, and are transferred to the statement of profit and loss upon realization or redemption. A provision for a decline in value of an other-than-temporary nature is deducted from the balance-sheet balance, and recorded in the statement of profit and loss.

E. Debtors and Creditors in Respect of Credit-Card Transactions

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

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

F. Offsetting Financial Instruments

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

G. Provision for Doubtful Debts

The financial statements include specific provisions for doubtful debts that fairly reflect, according to the assessment by Management, the loss inherent in debts whose collection is in doubt. In determining the fairness of the provisions, Management relies, among other factors, on a risk assessment based on the information available to it with regard to debtors' financial position and volume of activity, an evaluation of collateral received from debtors, and past experience. Doubtful debts which Management believes there is no chance of collecting are written off, according to Management's decision.

H. Computers and Equipment

1. Computers and equipment are recognized at cost, less accumulated depreciation. Depreciation is calculated according to the "straight-line method," based on the estimated useful life of the assets.

2. The annual rate of depreciation is:

   Software costs – 25%

3. Costs of the development of software for internal use are handled in accordance with Standard 30, “Intangible Assets.” 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 – Reporting Rules and Significant Accounting Policies (cont.)

I. Impairment of Assets

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

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

J. Taxes on Income

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

Balances of deferred taxes (asset or liability) are calculated using the liability method, according to the tax rates that will apply at the time of utilization of the deferred taxes or at the time of exercise of the tax benefits, based on the tax rates and tax laws legislated or the legislation of which has been essentially completed by the balance-sheet date.

K. Share-Based Payments

Several employees of the Company have been granted options exercisable into shares of the Parent Company.

The Company has implemented Accounting Standard No. 24, "Share-Based Payment" (hereinafter: the "Standard") as of January 1, 2006. Pursuant to the directives of the Standard, the Company recognizes share-based payment transactions in its 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.

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

K. Share-Based Payments (cont.)

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 wage expense, against a capital reserve, according to the fair value of the options at the allocation date, using the Black & Scholes model. In accordance with this policy, the benefit generated is spread over the vesting period of the option notes, based on the Company's estimates regarding the number of options expected to vest, other than forfeitures resulting from noncompliance with market conditions.

L. Employee Rights

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

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

M. Fair Value of Financial Instruments

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

N. Revenue Recognition

1. Income from acquiring fees is included in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.

2. The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, "Reporting Income on a Gross or Net Basis," and accordingly presents income from acquiring fees on a gross basis, while fees to other issuers are presented under expense items.

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

N. Revenue Recognition (cont.)

3. Income from membership fees, operating fees, and deferred-debit fees collected from cardholders are included in the statement of profit and loss on a cumulative basis. (The collection of operating fees ceased as of July 2008, pursuant to an amendment to the Banking Law (Customer Service)).

4. Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears 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.

O. Earnings Per Share

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

P. Segmental Reporting

Segmental reporting is presented in accordance with the directives of the Supervisor of Banks – see also Note 26.

Q. Statement of Cash Flows

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

R. 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.

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

S. Foreign Currency and Linkage

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

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

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

	December 31		
	2008	**2007**	**2006**
Consumer price index (in points)	106.4	102.5	99.13
United States dollar exchange rate (in NIS per 1 USD)	3.802	3.846	4.225

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

T. Effects of Changes in Exchange Rates of Foreign Currencies

The Company implements Accounting Standard No. 13, "The Effects of Changes in Exchange Rates of Foreign Currencies." The standard addresses the translation of transactions in foreign currency and the translation of financial statements of external operations for the purpose of integration with the financial statements of the Company.

Transactions denominated in foreign currency are recorded upon first recognition at the exchange rate at the date of the transaction. Exchange-rate differences arising from the settlement of monetary items or from the reporting of monetary items of the Company at exchange rates different than those used for the first-time recording during the period, or different than those reported in prior financial statements, were allocated to the statement of profit and loss.

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

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

1. In December 2006, the Israel Accounting Standards Board issued Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Party" (the "**Standard**"). The Standard replaces the Securities Regulations (Statement of Transactions between a Corporation and its Controlling Party in Financial Statements), 5756-1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The Standard stipulates that assets and liabilities with regard to which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction, at fair value, and the difference between the fair value and the consideration allocated in the transaction shall be allocated to shareholders' equity. A negative difference constitutes a dividend and therefore reduces the balance of retained earnings. A positive difference constitutes an owner investment, and shall therefore be presented in a separate item under shareholders' equity, entitled "Capital reserve from a transaction between the entity and its controlling party."

   The Standard addresses three issues related to transactions between an entity and its controlling party: transfer of an asset to the entity from the controlling party, or alternatively, transfer of an asset from the entity to the controlling party; the undertaking of a liability of the entity towards a third party, in full or in part, by the controlling party, indemnification of the entity by its controlling party for an expense, or a waiver by the controlling party of a debt owed to it by the entity, in full or in part; and loans given to the controlling party or received from the controlling party. The Standard further stipulates the disclosure to be made in the financial statements with regard to transactions between the entity and its controlling party during the period. The Standard will apply to transactions between an entity and its controlling party executed after January 1, 2007, and to loans given to or received from the controlling party before the inception date of this Standard, as of the inception date.

   In May 2008, the Supervisor of Banks issued a letter indicating that the rules to apply to banking corporations and credit-card companies with regard to the treatment of transactions between entities and their controlling parties are being reexamined.

   According to the letter, the Supervisor of Banks intends to establish the following rules to apply to transactions between a banking corporation or a credit-card company and its controlling party, and to transactions between a corporation and a company under its control:

   - International Financial Reporting Standards;

   - In the absence of a specific reference in the International Financial Reporting Standards, generally accepted accounting principles in the United States (US GAAP) applicable to banking corporations in the United States will apply, provided that they do not contradict International Financial Reporting Standards;

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

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

- In the absence of a reference in US GAAP, the sections of Standard 23 will apply, provided that they do not contradict International Financial Reporting Standards and US GAAP, as noted above.

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

2. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (the "**Standard**"). The Standard stipulates that entities subject to the Securities Law, 5728-1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting January 1, 2008.

   The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. With regard to the manner of implementation of the Standard by the aforesaid corporations, the Supervisor of Banks has announced the following:

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

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

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

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

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

3. A circular of the Supervisor of Banks on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses" (hereinafter: the "Circular" or the "Directive") was issued in December 2007, for implementation by banking corporations and credit-card companies as of January 1, 2010. The Circular is based, among other things, on U.S. accounting standards and the related regulatory directives of bank supervision agencies and the Securities and Exchange Commission in the United States. The fundamental guiding principles of the Circular represent a substantial departure from the current directives on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts. According to the Circular, banking corporations and credit-card companies are required to make provisions for credit losses at an appropriate level in order to cover estimated credit losses with respect to their credit portfolios. In addition to the aforesaid, according to the Circular, provisions must be made in a separate liability account at an appropriate level to cover estimated credit losses related to off-balance-sheet credit instruments, such as contractual engagements to provide credit and guarantees.

   The required provision to cover estimated credit losses with respect to the credit portfolio is to be assessed by one of two methods: "individual provisions" and "group provisions." "Individual provisions for credit losses" are to be applied for all debts where the contractual balance (without deducting accounting write-offs that do not involve accounting waivers, unrecognized interest, provisions for credit losses, and collateral) is NIS 1 million or more, and for other debts identified by the company for individual assessment and for which the provision for decline in value is not included in the "specific provision for credit losses estimated on a group basis." The individual provision for credit losses is to be assessed based on the present value of expected future cash flows, discounted at the effective interest rate of the debt; or, for debts contingent upon collateral, or when the company determines that seizure of an asset is expected, according to the fair value of the collateral placed under lien to secure the credit. "Specific provisions for credit losses estimated on a group basis" are to be applied in provisions for the decline in value of large groups of small debts with similar risk characteristics, and in respect of debts examined individually and found to be unimpaired. The specific provision for credit losses in respect of debts evaluated on a group basis is to be calculated in accordance with the rules stipulated in U.S. accounting standard FAS 5 – Accounting for Contingencies (hereinafter: "FAS 5"), based on a current estimate of the rate of past losses in respect of each group of debts with similar risk characteristics. The required provision in respect of off-balance-sheet credit instruments is to be assessed in accordance with the rules stipulated in U.S. accounting standard FAS 5.

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

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

The Circular further stipulates various definitions and classifications of balance-sheet and off-balance-sheet credit risk, rules for the recognition of interest income from impaired debts, and rules for accounting write-offs of problematic debts. Among other things, the Circular states that accounting write-offs should be performed for any individually examined debt thought to be uncollectible, of such low value that its retention as an asset is unjustified, or debts in respect of which the company has carried out prolonged collection efforts. With regard to debts evaluated on a group basis, write-off rules were established based on the period of arrears.

The Directive is to be implemented in the financial statements of banking corporations and credit-card companies from the statements for January 1, 2010 (hereinafter: the "**First Implementation Date**") forward. The Directive is not to be implemented retroactively in financial statements for previous periods. Alternatively, at the First Implementation Date, banking corporations and credit-card companies will be required, among other things, to:

- Perform accounting write-offs of all debts meeting the conditions for accounting write-offs on that date;

- Adjust the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments at the transition date to the requirements of the Directive;

- Classify all debts meeting the conditions for such classification as under special supervision, inferior, or impaired;

- Cancel all accrued unpaid interest income in respect of all debts meeting the relevant conditions on that date; and

- Examine the need to adjust the balance of current and deferred taxes receivable and payable.

Adjustments of the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments to the requirements of the Directive at the First Implementation Date are to be included directly in the "retained earnings" item within shareholders' equity.

In this connection, it has been clarified that despite the definition according to which restructured problematic debt is impaired debt, banking corporations and credit-card companies are not required to classify as impaired debts restructured prior to January 1, 2007, provided that the debt is not impaired based on the conditions stipulated in the restructuring agreement.

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

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

The Company will implement the requirements of the Circular as of January 1, 2010, as noted. Implementation of the requirements of the Directive necessitates the upgrade and/or setup of a computerized infrastructure system in order to ensure a process of assessment and execution of provisions for credit losses, including internal control systems to examine the adequate implementation of the Directive and validate the effectiveness of the method of calculating the provision.

As part of the Company's preparations for the implementation of the Directive, a project has been established and budgeted, with reference to computer and manpower resources. A steering committee has been appointed to manage the project, headed by the Head of Finance and Administration, as well as a working committee consisting of representatives of various units. The Company has defined milestones, divided among different areas of responsibility, and is currently at the stage of defining requirements, which is slated for completion by the end of the first quarter of 2009. Development and implementation of the system will be completed by the end of 2009.

The implementation of the directives established may have an impact on the Company’s reported results; however, at this stage it is not possible to estimate the strength and extent of such impact.

Note 3 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS thousands

	December 31	
	2008	**2007**
Cash on hand	24,925	9,401
Deposits with banks for an original term of up to 3 months	539	364
Total cash and cash equivalents	**25,464**	**9,765**
Other deposits with banks	13,649	16,144
Total	**39,113**	**25,909**

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS thousands

	December 31	
	2008	2007
Debtors in respect of credit cards (1) (2)	50,307	*36,436
Credit to merchants (3)	3,837	1,541
Others	2,368	*3,153
Total	**56,512**	**41,130**
Less: Provision for doubtful debts	(68)	-
Total debtors and credit to merchants	**56,444**	**41,130**
Companies and international credit-card organization	375,436	*174,517
Income receivable	146	*1
Total debtors in respect of credit-card activity	**432,026**	**215,648**

(1) Under the responsibility of banks.

(2) Debtors in respect of credit cards – non-interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions.

(3) Includes advance payments to merchants in the amount of NIS 3,769 thousand as of December 31, 2008 (Dec. 31, 2007: NIS 1,541 thousand).

* Reclassified.

Note 5 – Provision for Doubtful Debts

Reported amounts

In NIS thousands

	Specific provision(1)
Balance of provision as of January 1, 2008	**-**
Net provisions for 2008	68
Balance of provision as of December 31, 2008	**68**

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

Note 6 – Debtors in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

	December 31, 2008		
	Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total(1)	Of which: under responsibility of banks
	NIS thousands		
Credit ceiling (in NIS thousands)			
Borrower balances up to 5	24,045	19,979	18,333
Borrower balances over 5 and up to 10	2,095	13,423	12,317
Borrower balances over 10 and up to 15	577	6,455	5,923
Borrower balances over 15 and up to 20	224	3,614	3,316
Borrower balances over 20 and up to 30	144	3,226	2,960
Borrower balances over 30 and up to 40	67	2,166	1,988
Borrower balances over 40 and up to 80	53	2,890	2,652
Borrower balances over 80 and up to 150	14	1,428	1,310
Borrower balances over 150 and up to 300	4	764	701
Borrower balances over 300 and up to 600	2	880	807
Borrower balances over 40,000 and up to 200,000	2	374,687	-
Total	**27,227**	**429,512**	**50,307**
Income receivable and other debtors		2,514	-
Total	**27,227**	**432,026**	**50,307**

(1) After deducting specific provisions for doubtful debts.

(2) Number of borrowers by total debtors and credit risk.

Note 7 – Securities

Reported amounts

In NIS thousands

	December 31	
	2008	2007
Composition:		
Visa International shares	*-	-
Total	*-	-

* Amount lower than NIS 0.5 thousand.

In October 2007, Visa Inc. decided to carry out a structural change in which the Visa International Association, Visa U.S.A., and Visa Canada became its subsidiaries. As part of this structural change, an initial allocation of shares to members of the organization was performed, in which 1,956 shares of several types were allocated to Aminit, comprising approximately 0.0002% of all shares of the organization at that time. The shares were allocated to Aminit based on its membership in the organization as an issuer of Visa travelers' checks, starting in March 1982. The shares are non-transferable, except in certain cases established in the rules of the organization.

Visa Inc. issued Class A shares to the public on the stock market in the United States in March 2008. As part of this process, on March 17, 2008, the shares allocated to the Company as described above were converted by Visa Inc. into 2,040 Common Stock (Series I) C shares. On March 28, 2008, Visa Inc. redeemed 1,147 of the aforesaid Class C shares from the Company in consideration for USD 49 thousand (approximately NIS 173 thousand). The Company has 893 of the aforesaid Class C shares remaining. Class C shares are not issued to the public and do not confer voting rights, except on certain matters. Furthermore, the shares are non-transferable for three years, with the exception of certain cases established in the rules of the organization.

Note 8 – Computers and Equipment

Reported amounts

In NIS thousands

	Computers and peripheral equipment
Cost:	
As of January 1, 2008	115
Additions	-
As of December 31, 2008	**115**
Accrued depreciation:	
As of January 1, 2008	10
Additions	28
As of December 31, 2008	**38**
Depreciated balance as of December 31, 2008	**77**
Depreciated balance as of December 31, 2007	**105**
Average weighted depreciation rate in 2008	25%

Note 9 – Other Assets

Reported amounts

In NIS thousands

	December 31	
	2008	**2007**
Deferred taxes receivable, net (see Note 25)	**101**	**106**
Other debtors and debit balances:		
Surplus of advance income-tax payments over current provisions	100	90
Prepaid expenses	661	545
Related companies	14	*15
Other debtors	136	*164
Total other debtors and debit balances	**911**	**814**
Total other assets	**1,012**	**920**

* Reclassified.

Note 10 – Credit from Banking Corporations

	2008		December 31	
	Average annual interest rate		2008	2007
	For daily balance	For transactions in the last month	Reported amounts	
	%	%	In NIS thousands	
Credit in current drawing accounts	**5.0**	**5.0**	**7**	**24**

Note 11 – Travelers' Checks in Circulation, Net

Reported amounts

In NIS thousands

A. Composition:

	December 31	
	2008	**2007**
Travelers' checks in USD	13,095	15,247
Travelers' checks in GBP	129	182
Travelers' checks in EUR	312	337
Total	**13,536**	**15,766**

B. The amount constitutes the net balance of travelers' checks not yet presented for redemption.

C. The Company has contingent liabilities in foreign currency related to lost travelers' checks in the amount of NIS 6,527 thousand (December 31, 2007: NIS 6,624 thousand). The Company included an appropriate provision in its financial statements for the aforesaid lost travelers' checks.

Note 12 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS thousands

	December 31	
	2008	2007
Merchants (1)	406,095	*198,287
Liabilities in respect of deposits	100	*100
International credit-card organization	-	*-
Prepaid income	70	*22
Others	219	*267
Total creditors in respect of credit-card activity	**406,484**	**198,676**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 18,246 thousand as of December 31, 2008 (Dec. 31, 2007: NIS 4,141 thousand).

* Reclassified.

Note 13 – Other Liabilities

Reported amounts

In NIS thousands

	December 31	
	2008	2007
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	350	*425
Suppliers of services and equipment	494	309
Expenses payable	2,627	*595
Isracard Ltd. (a related party)	25,691	19,707
Institutions	95	*72
Others	358	*196
Total other liabilities	**29,615**	**21,304**

* Reclassified.

Note 14 – Capital Adequacy According to the Directives of the Supervisor of Banks

A. Composition

	December 31, 2008	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 1	15,002,000	6,000

	December 31, 2007	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 1*	2,000	2,000

B. Capital for the calculation of the capital ratio

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

	December 31, 2008	December 31, 2007
	Balances	Balances
	NIS thousands	NIS thousands
Primary capital	22,586	6,812

* In November 2008, the registered and issued share capital of the Company was consolidated such that every 10,000 shares of par value 0.0001 each were consolidated into one common share of par value NIS 1.

Note 14 – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

C. Weighted risk balances

	December 31, 2008							
Credit risk	**Balances**	**Weighting rate**				**Deduction from capital**	**Risk balance**	**Capital requirements**
	NIS thousands	**0%**	**20%**	**50%**	**100%**		**NIS thousands**	
Assets								
Cash on hand and deposits with banks	39,113	-	39,113	-	-	-	7,823	704
Debtors in respect of credit-card activity*	432,026	-	427,508	-	4,518	-	90,020	8,102
Computers and equipment	77	-	-	-	77	-	77	7
Other assets	1,012	100	150	-	762	-	792	71
Total credit risk assets	**472,228**	**100**	**466,771**	**-**	**5,357**	**-**	**98,712**	**8,884**
Market risk								
In respect of foreign currency	-	-	-	-	-	-	314	28
Total risk assets	**472,228**	**100**	**466,771**	**-**	**5,357**	**-**	**99,026**	**8,912**

Note 14 – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

C. Weighted risk balances (cont.)

	December 31, 2007							
Credit risk	**Balances**	**Weighting rate**				**Deduction from capital**	**Risk balance**	**Capital requirements**
	NIS thousands	**0%**	**20%**	**50%**	**100%**		**NIS thousands**	
Assets								
Cash on hand and deposits with banks	25,909	-	25,909	-	-	-	5,182	466
Debtors in respect of credit-card activity*	215,648	-	210,761	-	4,887	-	47,039	4,234
Computers and equipment	105	-	-	-	105	-	105	9
Other assets	920	90	179	-	651	-	687	62
Total credit risk assets	**242,582**	**90**	**236,849**	**-**	**5,643**	**-**	**53,013**	**4,771**
Market risk								
In respect of foreign currency	-	-	-	-	-	-	5,276	475
Total risk assets	**242,582**	**90**	**236,849**	**-**	**5,643**	**-**	**58,289**	**5,246**

Note 14 – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

D. Ratio of capital to risk-adjusted assets

	December 31	
	2008	2007
	%	%
Ratio of overall capital to risk-adjusted assets**	22.8	***11.7
Minimum overall capital ratio required by Supervisor of Banks	9.0	9.0

* Bank Hapoalim B.M. (the Parent Company) has provided an indemnification letter for certain assets of the Company, in order for the Company to comply with the terms of the limits of minimum capital ratio, in accordance with Proper Conduct of Banking Business Directive No. 311 of the Supervisor of Banks. The indemnification is conditional upon its existence being required for the company to comply with the capital ratio limits.

** In addition to the aforesaid indemnification letter, due to the significant cumulative growth in acquiring activity conducted by the Company in recent months for transactions executed in credit cards issued by other issuers, and in order for the Company to comply with the terms of the minimum capital ratio as required by the Bank of Israel, as noted above, the Company and Bank Hapoalim B.M. prepared such that in November 2008, the registered share capital of the Company was increased by NIS 15 million, divided into 15 million common shares of par value NIS 1 each, of which 4,000 common shares of par value NIS 1 each were issued to Bank Hapoalim, in consideration for a total of NIS 3.750 per share (i.e. in consideration for a total of NIS 15 million).

*** Reclassified.

Note 15 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS thousands

	December 31, 2008					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	22,604	-	16,004	505	-	39,113
Debtors in respect of credit-card activity	429,067	2,190	758	11	-	432,026
Securities	-	-	**-	-	-	**-
Computers and equipment	-	-	-	-	77	77
Other assets	237	100	14	-	661	1,012
Total assets	**451,908**	**2,290**	**16,776**	**516**	**738**	**472,228**
Liabilities						
Credit from banking corporations	7	-	-	-	-	7
Travelers' checks in circulation	-	-	13,095	441	-	13,536
Creditors in respect of credit-card activity	401,150	2,041	3,223	-	70	406,484
Other liabilities	29,435	-	180	-	-	29,615
Total liabilities	**430,592**	**2,041**	**16,498**	**441**	**70**	**449,642**
Difference	**21,316**	**249**	**278**	**75**	**668**	**22,586**

* Including foreign-currency linked.

** Amount lower than NIS 0.5 thousand.

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

Reported amounts

In NIS thousands

	December 31, 2007					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	8,140	-	**17,196	**573	-	25,909
Debtors in respect of credit-card activity**	209,511	876	5,251	10	-	215,648
Securities	-	-	-	-	-	-
Computers and equipment	-	-	-	-	105	105
Other assets	**270	90	15	-	545	920
Total assets	**217,921**	**966**	**22,462**	**583**	**650**	**242,582**
Liabilities						
Credit from banking corporations	-	-	24	-	-	24
Travelers' checks in circulation	-	-	15,247	519	-	15,766
Creditors in respect of credit-card activity**	196,702	822	1,130	-	22	198,676
Other liabilities**	21,114	-	190	-	-	21,304
Total liabilities	**217,816**	**822**	**16,591**	**519**	**22**	**235,770**
Difference	**105**	**144**	**5,871**	**64**	**628**	**6,812**

* Including foreign-currency linked.

** Reclassified.

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

Reported amounts

In NIS thousands

	December 31, 2008							
	Expected future contractual cash flows						Balance-sheet balance[2]	
	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	Total cash flows[1]	No maturity date	Total
Unlinked Israeli currency								
Assets	290,075	88,087	70,085	3,036	583	451,866	42	451,908
Liabilities	277,836	80,616	68,083	3,165	824	430,524	68	430,592
Difference	**12,239**	**7,471**	**2,002**	**(129)**	**(241)**	**21,342**	**(26)**	**21,316**
CPI-linked Israeli currency								
Assets	1,559	403	302	21	5	2,290	-	2,290
Liabilities	1,353	371	291	21	5	2,041	-	2,041
Difference	**206**	**32**	**11**	**-**	**-**	**249**	**-**	**249**
Foreign currency[3]								
Assets	3,704	(75)	13,663	-	-	17,292	-	17,292
Liabilities	16,719	12	56	-	-	16,787	152	16,939
Difference	**(13,015)**	**(87)**	**13,607**	**-**	**-**	**505**	**(152)**	**353**
Non-monetary items								
Assets							738	738
Liabilities							70	70
Difference							**668**	**668**
Total								
Assets	295,338	88,415	84,050	3,057	588	471,448	780	472,228
Liabilities	295,908	80,999	68,430	3,186	829	449,352	290	449,642
Difference	**(570)**	**7,416**	**15,620**	**(129)**	**(241)**	**22,096**	**490**	**22,586**

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

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

(3) Including foreign-currency linked.

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

Reported amounts

In NIS thousands

	December 31, 2007							
	Expected future contractual cash flows						Balance-sheet balance(2)	
	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	Total cash flows(1)	No maturity date	Total
Unlinked Israeli currency								
Assets*	119,758	52,737	43,185	1,908	286	217,874	47	217,921
Liabilities*	124,645	47,899	42,767	2,025	479	217,815	-	217,815
Difference	**(4,887)**	**4,838**	**418**	**(117)**	**(193)**	**59**	**47**	**106**
CPI-linked Israeli currency								
Assets*	577	203	177	8	1	966	-	966
Liabilities*	443	196	174	8	1	822	-	822
Difference	**134**	**7**	**3**	**-**	**-**	**144**	**-**	**144**
Foreign currency(3)								
Assets*	6,886	-	16,159	-	-	23,045	-	23,045
Liabilities*	16,842	3	170	-	-	17,015	96	17,111
Difference	**(9,956)**	**(3)**	**15,989**	**-**	**-**	**6,030**	**(96)**	**5,934**
Non-monetary items								
Assets							650	650
Liabilities*							22	22
Difference							**628**	**628**
Total								
Assets*	127,221	52,940	59,521	1,916	287	241,885	697	242,582
Liabilities*	141,930	48,098	43,111	2,033	480	235,652	118	235,770
Difference	**(14,709)**	**4,842**	**16,410**	**(117)**	**(193)**	**6,233**	**579**	**6,812**

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

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

(3) Including foreign-currency linked.

* Reclassified.

Note 17 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS thousands

	December 31	
	2008	**2007**
Unutilized credit-card credit lines:		
Credit risk on banks	710,369	802,109

Credit lines for current transactions for holders of bank credit cards are provided by banks that are members of the Aminit Arrangement (see also Note 17F 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

1. Following talks held between the Company; its sister company Isracard Ltd., which provides operational services to the Company; and the credit-card companies Leumi Card Ltd. and Cartisei Ashrai LeIsrael Ltd. (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Antitrust Commissioner (hereinafter: 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 acquiring in Israel, including the operation of an appropriate technical interface (hereinafter: the “**Technical Interface**”), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a restrictive arrangement from the Antitrust Tribunal.

   The Credit-Card Companies, together with the banks that control each of them – respectively, Bank Hapoalim B.M., Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal on October 30, 2006, under the terms formulated and agreed upon with the Antitrust Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted a temporary permit for the Arrangement, in effect until April 30, 2009.

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

On November 11, 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it ruled on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit-Card Companies, to which the Company was not a party. An expert was subsequently appointed; the expert submitted his interim report to the Tribunal in January 2009.

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

In May 2007, the Company signed the Domestic Agreement, which regularizes the interaction between acquirers and issuers for the purpose of acquiring in Israel of Visa and MasterCard cards, under temporary interchange-fee terms, as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards.

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

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

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

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

3. Prevention of Money Laundering and Terrorism Financing

   The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations) (Amendment), 5767-2006 applied the provisions of the Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 5761-2001 to credit-card companies as auxiliary corporations.

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

   In the area of merchants, the process of receiving information and documents required under the Money Laundering Prohibition Order from merchants whose accounts were opened prior to the inception of the Order continues; this process is expected to be completed in March 2009, as required by the Order. Computerized control systems for the receipt of identifying information of merchants have also been specified and planned.

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

   The training system has been expanded and improved.

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

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

4. Banking Law (Customer Service) (Amendment No. 12), 5767-2007 was enacted in July 2007. The amendment states, among other matters, that the Governor of the Bank of Israel is to establish, in rules, a list of services for which a banking corporation is permitted to charge fees from its customers, and the manner of calculation of the fees that may be charged for such services. Banking corporations will be permitted to charge fees only for the services included in the fee lists. It was further established that the Governor may declare services to be subject to supervision with regard to the fees charged and to determine the amount or rate of the fees.

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

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

In December 2007, the Bank of Israel issued Banking Rules (Customer Service), Fees, 5768-2007, which establish rules including those described above. In light of the published fee list, the Company ceased collection of some of the fees which it previously collected. Accordingly, the Company prepared an amended fee schedule, pursuant to the new rules established by the Bank of Israel. The new fee schedule was published in June 2008. The Company began to operate based on this fee schedule as of July 1, 2008.

C. Legal Proceedings

Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low.

D. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company. The cumulative amount of the indemnification to be provided by the Company, pursuant to the commitment, to all directors in respect of one or more indemnification events shall not exceed 50% (fifty percent) of its shareholders' equity according to its financial statements published most recently prior to the date of the actual indemnification.

E. Agreement with Isracard Ltd.

The Company has an agreement with Isracard Ltd. (hereinafter: "Isracard"), a sister company, for the operation of the Company's credit-card issuance activity, acquiring in Israel of transactions executed with merchants using Visa cards, and the operation of travelers' checks activity.

The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's activity in the operation of these activities, the Company pays a fee and other payments to Isracard, as agreed between the parties.

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

F. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "**Banks Under Arrangement**"). The agreements with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the credit-card arrangement to the Company. Each such bank is responsible for accepting all sales slips and debits performed by the customer on the day of presentation of the sales slips or debits to the bank. The banks are also responsible for any loss caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. Under the agreements, the Banks Under Arrangement are entitled to payments, according to a formula established in the agreements.

G. Travelers' Checks

In September 2007, Visa International notified the Company that its board of directors had decided to terminate the travelers' check sale program, effective September 30, 2008. The reasons for the decision were the continual global decline in sales of travelers' checks and the cessation of sales of travelers' checks by several major issuers. Following this decision, the Company also decided to terminate the issuance of travelers' checks as of January 1, 2008. The Company continues to acquire travelers' checks issued prior to that date.

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 foregoing, the fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

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

In the majority of the items 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) varied 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.

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

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

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

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

Reported amounts

In NIS thousands

3. Balances and fair-value estimates of financial instruments

	December 31, 2008				December 31, 2007			
	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	25,464	13,649	39,113	38,835	9,765	16,144	25,909	25,499
Debtors in respect of credit-card activity	358,053	73,973	432,026	430,408	170,141	45,507	215,648	211,028
Securities	-	*-	*-	*-	-	-	-	-
Other financial assets	236	853	1,089	150	254	771	1,025	285
Total financial assets	**383,753**	**88,475**	**472,228**	**469,393**	**180,160**	**62,422**	**242,582**	**236,812**
Financial liabilities:								
Credit from banking corporations	7	-	7	7	24	-	24	24
Travelers' checks in circulation	13,536	-	13,536	13,536	15,766	-	15,766	15,766
Creditors in respect of credit-card activity	334,067	72,417	406,484	404,831	153,316	45,360	198,676	197,282
Other financial liabilities	29,297	318	29,615	29,614	20,922	382	21,304	21,278
Total financial liabilities	**376,907**	**72,735**	**449,642**	**447,988**	**190,028**	**45,742**	**235,770**	**234,350**

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

(2) Other financial instruments.

* Amount lower than NIS 0.5 thousand.

Note 19 – Interested and Related Parties

Reported amounts

In NIS thousands

A. Balances

	December 31, 2008			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	39,113	40,224	-	-
Debtors in respect of credit-card activity[(1)]	2,152	3,118	-	-
Securities	-	-	-	-
Debtors and debit balances	2	3	-	-
Liabilities				
Credit from banking corporations	7	2,125	-	-
Creditors in respect of credit-card activity	-	-	16,335	19,379
Other liabilities	11	40	25,744	32,274
Shares (included in shareholders' equity)	6	6	-	-
Guarantees given by banks	49,031	49,031		

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

Note 19 – Interested and Related Parties (cont.)

Reported amounts

In NIS thousands

A. Balances (cont.)

	December 31, 2007			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	25,909	36,792	-	-
Debtors in respect of credit-card activity(1)	3,153	3,153	3,382	3,382
Securities	-	-	-	4,376
Debtors and debit balances	2	2	-	-
Liabilities				
Credit from banking corporations	24	858	-	-
Creditors in respect of credit-card activity	-	-	8,281	8,281
Other liabilities	26	26	19,714	20,983
Shares (included in shareholders' equity)*	2	2	-	-
Guarantees given by banks	35,138	35,138	224	224

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Reclassified.

Note 19 – Interested and Related Parties (cont.)

Reported amounts

In NIS thousands

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

	For the year ended December 31, 2008	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	58	78
Profit from financing activity	1,907	(505)
Operating expenses	-	-
General and administrative expenses	-	(4,021)
Receipts from banks(1)	(5,695)	-
Total	**7,660**	**(4,448)**

	For the year ended December 31, 2007	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	26	*-
Profit from financing activity	1,490	713
Operating expenses	-	-
General and administrative expenses	-	(1,397)
Receipts from banks(1)	(5,724)	(12)
Total	**7,240**	**(696)**

(1) See Note 17F.

* Amount lower than NIS 0.5 thousand.

C. Interested and Related Parties

See Note 17 regarding contractual engagements with banking corporations.

D. Indemnification Letter

See Note 14 regarding the indemnification letter provided to the Company by the Parent Company.

Note 20 – Income from Credit-Card Transactions

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
Income from merchants:			
Merchant fees	51,407	*10,593	*108
Other income	12	-	-
Total gross income from merchants	**51,419**	**10,593**	**108**
Income in respect of credit-card holders:			
Issuer fees	5,177	2,803	1,988
Service fees	1,565	*973	944
Fees from transactions abroad	902	772	840
Other income	58	126	19
Total income in respect of credit-card holders	**7,702**	**4,674**	**3,791**
Other income	2,668	*2,715	2,346
Total income from credit-card transactions	**61,789**	**17,982**	**6,245**

* Reclassified.

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

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
A. Financing income in respect of assets:			
From deposits with banks	1,722	1,494	1,179
From bonds	-	53	(183)
Total in respect of assets	**1,722**	**1,547**	**996**
B. Other:			
Other financing income	1,265	306	49
Other financing expenses	(1,807)	(1,591)	(835)
Total other	**(542)**	**(1,285)**	**(786)**
Total profit from financing activity before provision for doubtful debts (1)	**1,180**	**262**	**210**
(1) Of which: exchange-rate differences, net	20	169	169

Note 22 – Operating Expenses

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
Wages and incidentals	4,344	1,762	627
Data processing and computer maintenance	2,707	640	105
Operating expenses for incoming and outgoing tourism	3,541	2,127	451
Operating expenses for travelers' checks	447	1,305	972
Fees to other issuers	39,454	8,985	1,361
Amortization and depreciation	28	10	-
Communications	172	52	11
Production and delivery	1,679	1,097	743
Damages from abuse of credit cards	194	148	125
Rent and building maintenance	844	236	57
Others	360	147	84
Total operating expenses	**53,770**	**16,509**	**4,536**

Note 23 – Sales and Marketing Expenses

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
Wages and incidentals	3,030	2,082	246
Advertising	3,000	1,906	210
Customer retention and recruitment	298	165	-
Loyalty program	240	114	93
Travel insurance for credit-card holders	-	4	99
Others	985	698	10
Total sales and marketing expenses	**7,553**	**4,969**	**658**

Note 24 – General and Administrative Expenses

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
Wages and incidentals	503	77	71
Payments to Isracard Ltd.	4,021	1,397	604
Professional services	201	34	9
Others	1,663	589	251
Total general and administrative expenses	**6,388**	**2,097**	**935**

Note 25 – Provision for Taxes on Operating Profit

Reported amounts

In NIS thousands

	For the year ended December 31		
	2008	**2007**	**2006**
1. Item composition:			
Current taxes for the tax year	219	170	310
Deferred taxes for the tax year	5	(106)	(91)
Provision for taxes on income	**224**	**64**	**219**

2. Adjustment of the theoretical amount of tax that would apply if operating profits were taxed at the statutory tax rate applicable to banking corporations in Israel, to the provision for taxes on operating profit as allocated to the statement of profit and loss:

	For the year ended December 31		
	2008	**2007**	**2006**
Tax rate applicable to the Company in Israel	27%	29%	31%
Tax amount based on statutory rate	269	100	159
Tax increment (saving) in respect of:			
Temporary differences for which no deferred taxes were allocated	-	21	186
Exempt income	(1)	(2)	-
Addition (deduction) due to inflation	-	(68)	21
Loss from securities according to income tax	(47)	-	(1)
Loss carried forward from previous years	-	-	(55)
Change in balance of deferred taxes	3	13	(91)
Taxes for previous years	-	-	-
Provision for taxes on income	**224**	**64**	**219**

Note 25 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS thousands

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

4. Reduction in Tax Rates

On July 25, 2005, the Knesset approved the Income Tax Ordinance Amendment Law (No. 147 and Ad Hoc), 5765-2005 (hereinafter: the "**Amendment**").

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

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

Current taxes and deferred tax balances as of December 31, 2007 are calculated according to the new tax rates, as stipulated in the Amendment.

5. Rescission of the Adjustments for Inflation Law

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

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

Note 26 – Operating Segments

Quantitative Data on Operating Segments

Reported amounts

In NIS thousands

	For the year ended December 31, 2008				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other[(1)]**	**Total**
Income					
Fees from externals	7,705	54,084	-	-	61,789
Intersegmental fees	1,195	(1,195)	-	-	-
Total	**8,900**	**52,889**	**-**	**-**	**61,789**
Profit from financing activity before provision for doubtful debts	-	487	693	-	1,180
Other income	-	-	-	174	174
Total income	**8,900**	**53,376**	**693**	**174**	**63,143**
Expenses					
Provision for doubtful debts	-	68	-	-	68
Operation	3,194	50,129	447	-	53,770
Sales and marketing	4,724	2,829	-	-	7,553
General and administrative	679	5,709	-	-	6,388
Payments to banks (receipts from banks)	(769)	(5,231)	241	125	(5,634)
Total expenses	**7,828**	**53,504**	**688**	**125**	**62,145**
Operating profit (loss) before taxes	**1,072**	**(128)**	**5**	**49**	**998**
Provision for taxes on operating profit	253	(30)	1	-	224
Net profit (loss)	**819**	**(98)**	**4**	**49**	**774**
Return on equity (percent net profit out of average capital)	8.7	(1.0)	-	0.5	8.2
Average balance of assets	61,288	286,129	14,530	(37)	361,910
Average balance of liabilities	5,367	333,600	14,334	212	353,513
Average balance of risk-adjusted assets	14,947	281,017	2,982	(7)	298,939

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

Note 26 – Operating Segments (cont.)

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS thousands

	For the year ended December 31, 2007				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other**	**Total**
Income					
Fees from externals	4,673	13,309	-	-	17,982
Intersegmental fees	163	(163)	-	-	-
Total	**4,836**	**13,146**	**-**	**-**	**17,982**
Profit (loss) from financing activity before provision for doubtful debts	-	(802)	1,064	-	262
Total income	**4,836**	**12,344**	**1,064**	**-**	**18,244**
Expenses					
Provision for doubtful debts	-	-	-	-	-
Operation	2,571	12,633	1,305	-	16,509
Sales and marketing	2,703	2,266	-	-	4,969
General and administrative	702	1,395	-	-	2,097
Receipts from banks	(1,639)	(3,804)	(233)	-	(5,676)
Total expenses	**4,337**	**12,490**	**1,072**	**-**	**17,899**
Operating profit (loss) before taxes	**499**	**(146)**	**(8)**	**-**	**345**
Provision for taxes on operating profit	92	(27)	(1)	-	64
Net profit (loss)	**407**	**(119)**	**(7)**	**-**	**281**
Return on equity (percent net profit out of average capital)	6.1	(1.8)	(0.1)	-	4.2
Average balance of assets*	30,449	75,627	18,358	-	124,434
Average balance of liabilities*	5,065	94,855	17,796	-	117,716
Average balance of risk-adjusted assets*	7,757	72,203	3,729	-	83,689

* Reclassified.

Note 26 – Operating Segments (cont.)

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS thousands

	For the year ended December 31, 2006				
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Travelers' checks**	**Other**	**Total**
Income					
Fees from externals	3,792	2,453	-	-	6,245
Intersegmental fees	5	(5)	-	-	-
Total	**3,797**	**2,448**	**-**	**-**	**6,245**
Profit (loss) from financing activity before provision for doubtful debts	-	(922)	1,132	-	210
Total income	**3,797**	**1,526**	**1,132**	**-**	**6,455**
Expenses					
Provision for doubtful debts	-	-	-	-	-
Operation	2,006	1,558	972	-	4,536
Sales and marketing	658	-	-	-	658
General and administrative	669	266	-	-	935
Payments to banks (receipts from banks)	(46)	(298)	156	-	(188)
Total expenses	**3,287**	**1,526**	**1,128**	**-**	**5,941**
Operating profit before taxes	**510**	**-**	**4**	**-**	**514**
Provision for taxes on operating profit	217	-	2	-	219
Net profit	**293**	**-**	**2**	**-**	**295**
Return on equity (percent net profit out of average capital)	4.6	-	-	-	4.6

Note 27 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS thousands

	December 31	
	2008	**2007**
Total assets	472,225	242,577
Total liabilities	449,642	235,770
Shareholders' equity	22,583	6,807
Nominal net profit	772	277