Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2008

Report as of December 31, 2008

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Isracard Ltd. and its Consolidated Companies

Board of Directors' Report

For the Year Ended December 31, 2008

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

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

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1975 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), and Bank Hapoalim is the controlling shareholder of the Company.

The Company is a credit-card company operating in two main segments of activity, constituting the core of its operations: credit-card issuing and credit-card acquiring. The Company is an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 5741-1981 ("**auxiliary corporation**"). The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with its sister company Europay (Eurocard) Israel Ltd. ("**Europay**"), which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license from MasterCard International Incorporated ("**the MasterCard Organization**").

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.

The Company's other activities, each of which does not constitute a reportable segment, are concentrated under the "Other" operating segment.

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

In February 2009, Mr. Dov Kotler took office as Chief Executive Officer of the Company. Mr. Kotler replaced Mr. Haim Krupsky, who served as CEO of the Company starting in 1994, in this position.

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

With regard to the Company's contractual engagement with Bank Hapoalim concerning the issuance of credit cards, see the section "Agreements with banking corporations" under the Credit Card Issuance Segment. In addition, with regard to the Company's contractual engagement concerning the issuance of Hever club cards, and with regard to the Company's contractual engagement concerning the issuance of Lifestyle club cards, see the section "Marketing and distribution" under the Credit Card Issuance Segment.

With regard to the sale of shares of MasterCard Incorporated by the Company in 2008, see Note 7 to the Company's financial statements as of December 31, 2008 ("**the Financial Statements**").

Holding structure of the Company: The Company has two wholly owned subsidiaries, Isracard Mimun Ltd. and Isracard (Nechasim) 1994 Ltd.

Isracard Mimun Ltd. (“**Isracard Mimun**”) was established in 2004, and is a wholly owned and controlled subsidiary of the Company. Isracard Mimun provides credit to holders of non-bank credit cards in the Isracard Group, and supplies cardholders with a credit line which they can use to execute transactions using the revolving credit method or in order to receive loans. Isracard Mimun also extends loans to merchants acquiring transactions through the Company.

Activity in the areas of credit-granting and financing for cardholders and merchants were significantly expanded in 2008. The total balance of credit to cardholders and merchants was NIS 507 million on December 31, 2008, compared with NIS 303 million on December 31, 2007. (Additional credit in the amount of NIS 207 million was granted to the merchants by Isracard).

Isracard (Nechasim) 1994 Ltd. (“**Isracard Nechasim**”) was established in 1994, and is a wholly owned and controlled subsidiary of the Company. Isracard Nechasim is the joint owner with N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts of the ownership rights to a property located on Hamasger Street in Tel Aviv, where the Company’s offices are situated, among other things. Isracard Nechasim rents most of the property to Isracard, and the remainder of the property to Bank Hapoalim and to subsidiaries of Bank Hapoalim. Additional non-material activity of Isracard Nechasim includes the management of funds in deposits in respect of proceeds from the sale of gift cards by Isracard, from the date on which the funds are received until the date of payment to the merchant.

The Company also holds 19% of the issued share capital of Tzameret Mimunim Ltd. ("**Tzameret Mimunim**"). The remaining shares (81%) of Tzameret Mimunim are held by Bank Hapoalim. Tzameret Mimunim is an affiliated company of the Company, engaged in discount transactions in credit-card sales slips; it provides financing services to merchants by purchasing their rights to receive the amounts of sales slips in respect of credit-card transactions executed with the merchants. As part of the services offered by Tzameret Mimunim to the merchants with which it has agreements, it repays such transaction amounts to the merchants (deducting a fee) earlier than the date at which the merchant would be entitled to receive the consideration for those sales slips from the acquiring company. The Company is preparing to sell its entire stake in Tzameret Mimunim to Bank Hapoalim. This sale has been approved by the authorized organs of the Company and of Bank Hapoalim.

The Company also holds 13% of the issued share capital of Store Alliance.com Ltd.

After the balance-sheet date, 15% of the issued share capital of Life Style Customer Loyalty Club Ltd. and of Life Style Financing Ltd. was acquired.

Preparation to acquire shares of Europay – The Company is preparing to acquire Bank Hapoalim's entire stake in Europay, comprising 98.2% of the issued share capital of Europay. The remaining issued share capital of Europay (1.8%) is held by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). The aforesaid acquisition has been approved by most of the relevant organs.

Investments in the Company's share capital and transactions in its shares – In return for the extension of the term of the existing agreements between the Company and Europay, on one hand, and Mizrahi Bank, on the other hand, for the issuance of charge cards, the Company and Europay allocated ordinary shares to Mizrahi Bank in November 2007 granting it a stake of 1.8% of the issued ordinary share capital of each of these companies.

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

Dividend distribution – In March 2008, the Company distributed dividends to its shareholders in a total amount of approximately NIS 100 million. This distribution did not require court approvals.

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

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	1,926	309	2,235
Non-bank cards –			
Credit risk on the Company	160	46	206
Credit risk on others	84	51	135
	244	97	341
Total	**2,170**	**406**	**2,576**

Number of valid credit cards as of December 31, 2007

	Active cards	Inactive cards	Total
Bank cards	1,880	307	2,187
Non-bank cards –			
Credit risk on the Company	149	37	186
Credit risk on others	82	48	130
	231	**85**	**316**
Total	**2,111**	**392**	**2,503**

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

	For the year ended December 31	
	2008	**2007**
Bank cards	64,540	59,208
Non-bank cards –		
Credit risk on the Company	2,260	1,819
Credit risk on others	2,340	1,898
	4,600	**3,717**
Total	**69,140**	**62,925**

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.

Non-bank credit card: A card in which customer debits are performed other than in accordance with the Company's agreements with banks; the card is not under the responsibility of a 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 173 million, compared with NIS 142 million in 2007, an increase of 21.8%.

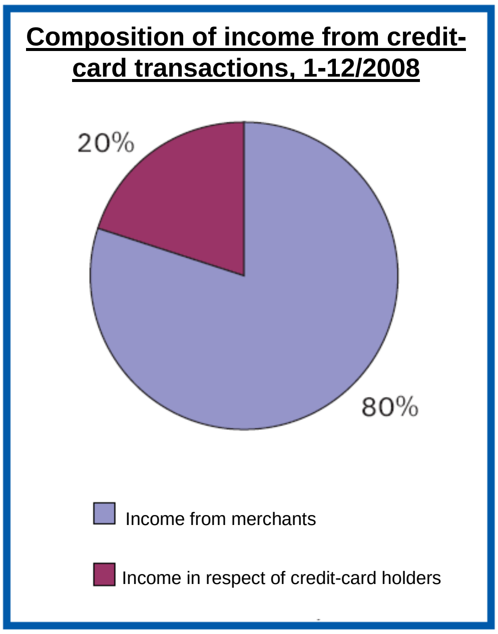
Net return on equity reached 20.2%, compared with 18.4% in 2007.

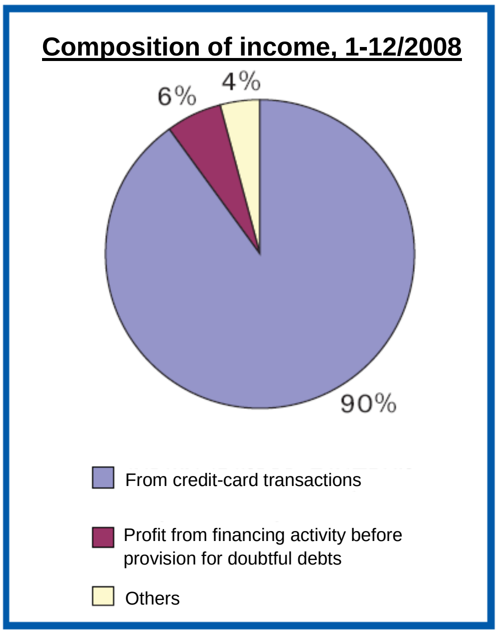
The increase in the Company's net profit as compared to 2007 mainly resulted from the following factors:

- An increase of approximately 10% in the volume of activity using the Company's credit cards.
- An increase of approximately 3% in the number of active credit cards.
- The sale of shares of MasterCard Incorporated, which generated profit after tax in the amount of approximately NIS 20 million.

Developments in Income and Expenses

Income totaled NIS 1,268 million, compared with NIS 1,151 million in 2007, an increase of 10.2%.





Income from credit-card transactions totaled NIS 1,146 million, compared with NIS 1,076 million in 2007, an increase of 6.5%. The increase resulted from the following factors:

- Income from merchants totaled NIS 914 million, compared with NIS 882 million in 2007, an increase of 3.6%.

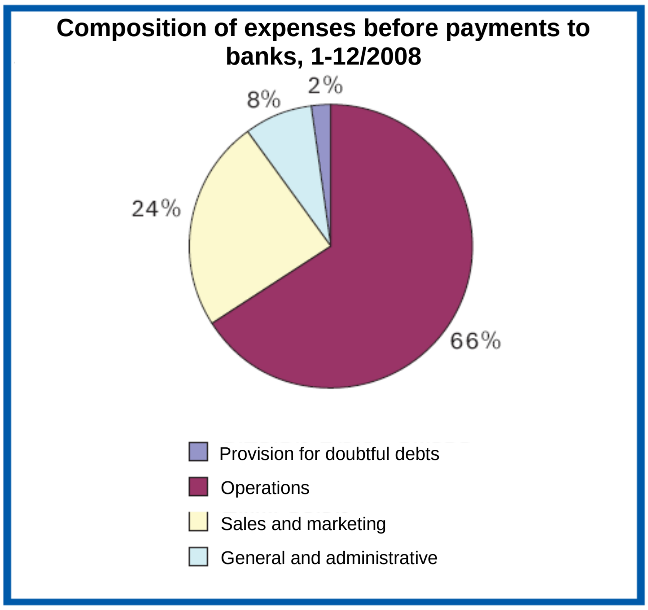
- Income in respect of credit-card holders totaled NIS 232 million, compared with NIS 194 million in 2007, an increase of 19.6%, which resulted from an increase of approximately 3% in the number of cards, as well as from the effect of the increase in the volume of transactions using the Company's cards in Israel acquired by other acquirers.

Profit from financing activity before provision for doubtful debts totaled NIS 74 million, compared with NIS 57 million in 2007, an increase of 29.8%, mostly resulting from an increase in the volume of credit granted to cardholders and merchants.

Other income totaled NIS 48 million, compared with NIS 18 million in 2007, an increase of 166.7%. The increase mainly resulted from the sale of shares of MasterCard Incorporated, which generated pre-tax profit in the amount of NIS 26 million.

Expenses, excluding payment of interchange fee to other issuers, before payments to banks totaled NIS 561 million, compared with NIS 505 million in 2007, an increase of 11.1%.

Expenses, including payment of interchange fee to other issuers, before payments to banks totaled NIS 615 million, compared with NIS 548 million in 2007, an increase of 12.2% (for an explanation of this increase, see the "operating expenses" section below).



Expenses including payments to banks totaled NIS 1,031 million, compared with NIS 956 million in 2007, an increase of 7.8%.

The provision for doubtful debts totaled NIS 11 million, compared with NIS 6 million in 2007, an increase of 83.3%, mainly resulting from an increase in the volume of credit granted to cardholders and merchants.

Operating expenses, including the payment of interchange fees to other issuers, totaled NIS 408 million, compared with NIS 356 million in 2007, an increase of 14.6%. The increase resulted from the following factors:

- An increase in salary and incidental expenses, mainly due to hiring of new employees in the areas of customer service and information systems.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

- An increase in expenses on the issuance of information for cardholders and merchants, as a result of the growth in the Company's activity.

- An increase in expenses on interchange fees to other issuers. For an explanation of this increase, see below.

Expenses for interchange fees to other issuers totaled NIS 54 million, compared with NIS 43 million in 2007, an increase of 25.6%, resulting from an increase in the volume of transactions in credit cards issued by other issuers in Israel and acquired by the Company.

Sales and marketing expenses totaled NIS 145 million, compared with NIS 142 million in 2007, an increase of 2.1%.

General and administrative expenses totaled NIS 51 million, compared with NIS 44 million in 2007, an increase of 15.9%.

Payments to banks for their share in the Company's surplus of income over expenses totaled NIS 416 million, compared with NIS 408 million in 2007, an increase of 2.0%.

The ratio of expenses to income before payments to banks reached 48.5%, compared with 47.6% in 2007.

Operating profit before taxes totaled NIS 237 million, compared with NIS 195 million in 2007, an increase of 21.5%.

The return of operating profit before taxes on equity reached 27.6% in 2008, compared with 25.2% in 2007.

The provision for taxes on operating profit totaled NIS 64 million, compared with NIS 53 million in 2007. The effective rate of tax out of total operating profit before taxes reached 27%, similar to the rate in 2007.

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

Developments in Balance-Sheet Items

The consolidated balance sheet as of December 31, 2008 totaled NIS 10,729 million, compared with NIS 10,432 million on December 31, 2007.

	December 31		
	2008	2007	Change
	NIS millions		%
Total balance sheet	10,729	10,432	2.8
Debtors in respect of credit-card activity	9,252	8,727	6.0
Cash on hand and deposits with banks	931	1,309	(28.9)
Securities	212	113	87.6
Creditors in respect of credit-card activity	9,412	9,161	2.7
Shareholders' equity	924	848	9.0

Debtors in respect of credit-card activity totaled NIS 9,252 million on December 31, 2008, compared with NIS 8,727 million 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 an increase in the volume of activity in the cards issued by the Company, and an increase in credit extended to cardholders and merchants.

Cash on hand and deposits with banks totaled NIS 931 million on December 31, 2008, compared with NIS 1,309 million at the end of 2007. The decrease mainly resulted from an increase in credit granted by the Company to cardholders and merchants, from dividend distribution to shareholders, and from the acquisition of a CPI-linked Israeli government bond in the amount of NIS 150 million.

Securities totaled NIS 212 million on December 31, 2008, compared with NIS 113 million at the end of 2007. The increase in comparison to the end of 2007 resulted from acquisition of a CPI-linked Israeli government bond in the amount of NIS 150 million, which was offset by the sale of half of the shares of MC, in the amount of NIS 51 million.

Buildings and equipment totaled NIS 224 million on December 31, 2008, compared with NIS 195 million at the end of 2007. The increase mainly resulted from investments in computer systems and software.

Creditors in respect of credit-card activity totaled NIS 9,412 million on December 31, 2008, compared with NIS 9,161 million 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 increase resulted from an increase in the acquiring volume of transactions executed with merchants who have entered into acquiring agreements with the Company.

Shareholders' equity totaled NIS 924 million on December 31, 2008, compared with NIS 848 million at the end of 2007. The increase mainly resulted from the Company's net profit, in the amount of NIS 173 million, which was offset by a dividend paid out to shareholders, in the amount of NIS 100 million.

The ratio of shareholders' equity to the balance sheet reached 8.6% on December 31, 2008, compared with 8.1% on December 31, 2007.

The ratio of capital to risk-adjusted assets reached 27.6% on December 31, 2008, compared with 27.8% on December 31, 2007. 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 millions

	For the year ended December 31, 2008			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other[(1)]**	**Total**
Operating and other income:				
Fees from externals	232	914	48	1,194
Intersegmental fees	730	(730)	-	-
Total	**962**	**184**	**48**	**1,194**
Profit from financing activity before provision for doubtful debts	43	29	2	74
Total income	**1,005**	**213**	**50**	**1,268**
Expenses				
Provision for doubtful debts	9	2	-	11
Operation	266	135	7	408
Sales and marketing	109	31	5	145
General and administrative	36	14	1	51
Payments to banks	398	18	-	416
Total expenses	**818**	**200**	**13**	**1,031**
Operating profit before taxes	**187**	**13**	**37**	**237**
Provision for taxes on operating profit	50	4	10	64
Operating profit after taxes	**137**	**9**	**27**	**173**
The Company's share in profits of affiliated companies	**-**	**-**	**-**	*-
Net profit	**137**	**9**	**27**	**173**
Return on equity (percent net profit out of average capital)	16.0	1.0	3.2	20.2
Average balance of assets	9,029	1,478	202	10,708
Of which: investments in affiliated companies	-	-	21	21
Average balance of liabilities	344	9,465	47	9,856
Average balance of risk-adjusted assets	2,202	803	178	3,183

(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.

* Amounts lower than NIS 0.5 million.

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2007			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Operating and other income:				
Fees from externals	194	883	17	1,094
Intersegmental fees	700	(700)	-	-
Total	**894**	**183**	**17**	**1,094**
Profit from financing activity before provision for doubtful debts	32	23	2	57
Total income	**926**	**206**	**19**	**1,151**
Expenses				
Provision for doubtful debts	6	*-	-	6
Operation	234	117	5	356
Sales and marketing	111	31	-	142
General and administrative	28	15	1	44
Payments to banks	378	30	-	408
Total expenses	**757**	**193**	**6**	**956**
Operating profit before taxes	**169**	**13**	**13**	**195**
Provision for taxes on operating profit	45	4	4	53
Operating profit after taxes	**124**	**9**	**9**	**142**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**124**	**9**	**9**	**142**
Return on equity (percent net profit out of average capital)**	16.0	1.2	1.2	18.4
Average balance of assets**	8,521	1,301	152	9,974
Of which: investments in affiliated companies	-	-	17	17
Average balance of liabilities**	207	8,956	35	9,198
Average balance of risk-adjusted assets**	2,162	364	134	2,660

(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.

* Amounts lower than NIS 0.5 million.

** Reclassified.

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2006			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Operating and other income:				
Fees from externals	174	836	13	1,023
Intersegmental fees	640	(640)	-	-
Total	**814**	**196**	**13**	**1,023**
Profit from financing activity before provision for doubtful debts	29	21	3	53
Total income	843	217	16	1,076
Expenses				
Provision for doubtful debts	4	-	-	4
Operation	203	121	4	328
Sales and marketing	118	24	-	142
General and administrative	27	14	-	41
Payments to banks	342	44	-	386
Total expenses	**694**	**203**	**4**	**901**
Operating profit before taxes	**149**	**14**	**12**	**175**
Provision for taxes on operating profit	47	4	4	55
Operating profit after taxes	**102**	**10**	**8**	**120**
The Company's share in profits of affiliated companies	**-**	**-**	*-	*-
Net profit	**102**	**10**	**8**	**120**
Return on equity (percent net profit out of average capital)**	15.8	1.6	1.2	18.6

(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.

* Amounts lower than NIS 0.5 million.

** Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 137 million, compared with NIS 124 million in 2007, an increase of 10%.

Net return on equity in the segment reached 16.0%, similar to the rate in 2007.

The increase in the segment's net profit as compared to 2007 mainly resulted from the following factors:

- An increase of approximately 10% in the volume of activity using the Company's credit cards.
- An increase of approximately 3% in the number of active credit cards.

Developments in Income and Expenses

The segment's income totaled NIS 1,005 million, compared with NIS 926 million in 2007, an increase of 9%.

Operating and other income totaled NIS 962 million, compared with NIS 894 million in 2007, an increase of 8%. The increase resulted from an increase of 3% in the number of cards and from the effect of the increase in the volume of transactions in the Company's cards in Israel acquired by other acquirers.

Profit from financing activity before provision for doubtful debts totaled NIS 43 million, compared with NIS 32 million in 2007, an increase of 34%, mostly resulting from an increase in the volume of credit granted to cardholders.

The segment's expenses before payments to banks totaled NIS 420 million, compared with NIS 379 million in 2007, an increase of 11% (for an explanation of this increase, see the "operating expenses" section below).

The segment's expenses including payments to banks totaled NIS 818 million, compared with NIS 757 million in 2007, an increase of 8%.

The provision for doubtful debts totaled NIS 9 million, compared with NIS 6 million in 2007, an increase of 50%, resulting from an increase in the volume of credit granted to cardholders by the Company.

Operating expenses totaled NIS 266 million, compared with NIS 234 million in 2007, an increase of 14%. The increase resulted from the following factors:

- An increase in salary and incidental expenses, mainly due to hiring of new employees in the areas of customer service and information systems.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

- An increase in expenses on the issuance of information for cardholders, as a result of the growth in the Company's activity.

Sales and marketing expenses totaled NIS 109 million, compared with NIS 111 million in 2007, a decrease of 2%.

General and administrative expenses totaled NIS 36 million, compared with NIS 28 million in 2007, an increase of 29%, mainly resulting from a benefit granted due to the allocation of shares.

Payments to banks for their share in the segment's surplus of income over expenses totaled NIS 398 million, compared with NIS 378 million in 2007, an increase of 5%.

The ratio of expenses to income in the segment, before payments to banks, reached 42%, compared with 41% in 2007.

The segment's operating profit before taxes totaled NIS 187 million, compared with NIS 169 million in 2007, an increase of 11%.

The provision for taxes on operating profit in the segment totaled NIS 50 million, compared with NIS 45 million in 2007.

Profit and Profitability – Acquiring Segment

The segment's net profit totaled NIS 9 million, similar to 2007.

Net return on equity in the segment reached 1.0%, compared with 1.2% in 2007.

Developments in Income and Expenses

The segment's income totaled NIS 213 million, compared with NIS 206 million in 2007, an increase of 3%.

Operating and other income totaled NIS 184 million, compared with NIS 183 million in 2007, an increase of 1%.

Profit from financing activity before provision for doubtful debts totaled NIS 29 million, compared with NIS 23 million in 2007, an increase of 26%, mostly resulting from an increase in the volume of credit granted to merchants.

The segment's expenses, excluding payment of interchange fee to other issuers, before payments to banks totaled NIS 128 million, compared with NIS 120 million in 2007, an increase of 7%.

The segment's expenses, including payment of interchange fee to other issuers, before payments to banks totaled NIS 182 million, compared with NIS 163 million in 2007, an increase of 12%; for an explanation of this increase, see below.

The segment's expenses including payments to banks totaled NIS 200 million, compared with NIS 193 million in 2007, an increase of 4%.

The provision for doubtful debts totaled NIS 2 million. In 2007, the provision for doubtful debts was less than NIS 0.5 million. The increase in the provision for doubtful debts resulted from an increase in the volume of credit granted to merchants by the Company.

Operating expenses, including the payment of interchange fees to other issuers, totaled NIS 135 million, compared with NIS 117 million in 2007, an increase of 15%. The increase resulted from the following factors:

- An increase in salary and incidental expenses, mainly due to hiring of new employees in the areas of customer service and information systems.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

- An increase in expenses on interchange fees to other issuers. For an explanation of this increase, see below.

Expenses for interchange fees to other issuers totaled NIS 54 million, compared with NIS 43 million in 2007, an increase of 26%, resulting from an increase in the volume of transactions in credit cards issued by other issuers in Israel and acquired by the Company.

Sales and marketing expenses totaled NIS 31 million, similar to 2007.

General and administrative expenses totaled NIS 14 million, compared with NIS 15 million in 2007, a decrease of 7%.

Payments to banks for their share in the segment's surplus of income over expenses totaled NIS 18 million, compared with NIS 30 million in 2007, a decrease of 40%.

The ratio of expenses to income in the segment, before payments to banks, reached 85%, compared with 79% in 2007.

The segment's operating profit before taxes totaled NIS 13 million, similar to 2007.

The provision for taxes on operating profit in the segment totaled NIS 4 million, similar to 2007.

Profit and Profitability – Other Segment

The segment's net profit totaled NIS 27 million, compared with NIS 9 million in 2007, an increase of 200%.

Net return on equity in the segment reached 3.2%, compared with 1.2% in 2007.

The increase in the segment's net profit as compared to 2007 resulted from the sale of shares of MasterCard Incorporated, which generated profit after tax in the amount of NIS 20 million.

Developments in Income and Expenses

The segment's income totaled NIS 50 million, compared with NIS 19 million in 2007, an increase of 163%.

Operating and other income totaled NIS 48 million, compared with NIS 17 million in 2007, an increase of 182%. The increase resulted from the sale of shares of MasterCard Incorporated.

Profit from financing activity before provision for doubtful debts totaled NIS 2 million, similar to the profit in 2007.

The segment's expenses totaled NIS 13 million, compared with NIS 6 million in 2007, an increase of 117%, mainly resulting from expenses for the establishment of the Check Guarantee and Discounting Unit.

The ratio of expenses to income in the segment reached 26%, compared with 32% in 2007.

The segment's operating profit before taxes totaled NIS 37 million, compared with NIS 13 million in 2007, an increase of 185%.

The provision for taxes on operating profit in the segment totaled NIS 10 million, compared with NIS 4 million in 2007.

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 following are the main areas in which estimates and evaluations were used, and which accordingly are considered by the Company to be critical accounting matters:

Provision for Gift Campaigns (Loyalty Programs) for Credit-Card Holders

In determining the fairness of the provision, Management relies on past experience with regard to the estimated future rate of utilization of "Stars" accumulated by cardholders and on the forecast cost per "Star," as updated from time to time.

Provision for Doubtful Debts

The financial statements include specific provisions for doubtful debts. In addition, a provision on a group basis is included. 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. The provision for doubtful debts on a group basis is calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision.

Liabilities for Employee Rights

Part of the provisions for the Company's liabilities in connection with employee-employer relationships are based, among other considerations, on actuarial calculations.

These provisions include a liability for “Jubilee Grants,” a liability for compensation for unutilized sick leave, severance pay, non-pension post-retirement benefits, and pension-related liabilities in respect of voluntary-retirement programs. The actuarial calculations are mainly based on assumptions and estimates, which rely on past experience and various statistics. The liabilities include a real wage increment of 1% per year, and are discounted at a factor of 4% per year, as stipulated by the Supervisor of Banks. Changes in the various actuarial parameters would lead to results different from those obtained today.

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 2.50% in December. Interest-rate cuts continued in the first three months of 2009, to a low of 0.75% in March 2009. The sharp downturn in inflation allows for a highly expansive monetary policy, as in most of the world during this period. The interest-rate cuts may have two opposing effects on the Company: on one hand, it will be possible to grant credit at lower interest rates, if costs of raising capital do not grow; on the other hand, the Company may suffer from a decrease in financing income from current operations and capital.

The Credit-Card Industry in Israel

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

Ashrai Leisrael Ltd. ("**CAL**"), which to the best of the Company's knowledge, issues and acquires Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and acquires Diners credit cards.

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

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

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

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

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

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

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

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

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, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) the image of the Company's private brand, Isracard, as a leading brand in Israel; (3) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card in the credit card issued to the customer; (4) quality of customer service; (5) an 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 targeted marketing system; (9) agreements to establish customer clubs; (10) operational efficiency and preservation of size advantage; and (11) high-quality, experienced human capital.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its logo, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for shareholders' equity, broad financial resources, and extensive knowledge in order to carry out the investments necessary to issue cards and the investments in technological infrastructures, including an 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 and operates Isracard type credit cards (a private brand) and MasterCard cards. The cards are issued both as bank cards and as non-bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; fuel cards and refueling devices; gift certificates and cards; rechargeable cards; various credit plans based on Isracredit plans; all-purpose loans and loans based on credit facilities in credit cards; various options for spreading payments; travel insurance; and information services and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, 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 by 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 expenses for customer-club marketing, advertising, and management; the loyalty program; 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 21 to the financial statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Engagements with Banking Corporations

In general, the various agreements of the Company and Europay 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/Europay, and to recommend the customer's registration for the card arrangement to the Company/Europay. As a rule, each such bank is responsible for accepting all sales slips and debits performed by the customer on the day of presentation of the sales slips or debits to the bank. The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

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

The Bank Hapoalim Agreement was approved by the authorized organs of the aforesaid companies, and took effect in December 2008, pursuant and subject to its provisions. See also Note 32 to the financial statements.

Contractual engagement with Mizrahi Bank – In November 2007, a memorandum of principles was signed between the Company and Europay, on one hand, and Mizrahi Bank, on the other hand, which stipulates, among other things, that Mizrahi Bank will continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years, in consideration for an allocation of shares at a rate of 1.8% of the ordinary issued share capital of each of the Company and Europay. The value of the benefit inherent in the aforesaid allocation of shares of the Company and of Europay to Mizrahi Bank amounts to approximately NIS

46 million. It was further agreed to conduct negotiations in order to reach a new agreement between the Company and Europay, on one hand, and Mizrahi Bank, on the other hand, to also address the issuance of branded credit cards for Mizrahi Bank and establish arrangements for operation and the provision of services by the Company. As the negotiations regarding the signing of the new agreement did not result in a binding agreement, the existing contractual arrangements between the parties will continue to apply.

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

Customers – Cardholders

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

As of the date of the report, there are no cardholders (bank and/or non-bank) whose rate of the volume of transactions executed in the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2008.

Marketing and Distribution

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

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Ashmoret cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, Hever cards for career military personnel and retirees, credit cards for members of the Israel Bar Association, and more.

The Company operates an Internet site at the address: www.isracard.co.il, designed for cardholders, among others. The website provides information, including about products and services offered to cardholders, the Company's rates, special offers, and benefits.

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

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

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

Contractual engagement with the Life-style club – In December 2008, the Company, Super-Pharm (Israel) Ltd. ("**Super-Pharm**"), and Alonyal Ltd. ("**Alonyal**") entered into a shareholders' agreement to establish the company Life-Style Customer Loyalty Club Ltd. (the "**Life-Style Company**"); the complete existing operations of the Life-Style club will be assigned to this company. The company Life-Style Financing Ltd. (the "**Financing Company**") was also established.

The Life-Style Company and the Financing Company are held as follows: Super-Pharm – approximately 81%; the Company – 15%; Alonyal – approximately 4%. The aforesaid agreement establishes arrangements among the parties with regard to their ownership of the Life-Style Company and the Financing Company. In addition, as part of the agreements among the parties, a contractual engagement was formed between the Company and the Life-Style Company for the issuance and operation of new Life-Style club cards. The term of the aforesaid agreement is 6.5

years from its inception date, which may be extended pursuant to its terms. The aforesaid agreement includes, among other matters, arrangements for payment and account settlement among the parties, the issuance process of the new cards, operational matters, benefits and rights of club members, and marketing.

Competition

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

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

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) reinforcement of the Company's status and image through advertising, benefits, and various offers for cardholders; (3) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (4) 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: (1) the Company and Europay are the leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) the Company has a long-term agreement with Bank Hapoalim for the issuance of credit cards; (5) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (6) the range of products and services offered to a broad spectrum of customers; (7) an advanced service system allowing a high quality of customer service; (8) a robust capital structure and positive cash flow; and (9) professional, skilled, experienced human capital.

Negative factors affecting the Company's competitive standing include, among others, technological changes 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, Europay, Poalim Express, Aminit, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various financial services, such as loans, advance payments, sales-slip discounting, and marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

For details with regard to regulation in this area, various directives in the area of cross-acquiring of MasterCard and Visa credit cards imposed upon credit-card companies in Israel by the Antitrust Commissioner in 2007 (the "**Cross-Acquiring Arrangement**"), and the Antitrust Commissioner's declaration of 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 MasterCard and Visa cards and acquire transactions executed in the said cards are able to acquire MasterCard and Visa cards, each according to its authorizations. Merchants may switch acquirers of these brands at their discretion.

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

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

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

As an acquirer, the Company has agreements with various merchants, under which it acquires sales slips of transactions, including domestic transactions and transactions by incoming tourists, executed using credit cards (issued by the Company and/or by other credit-card companies) with merchants with which the Company has entered into acquiring agreements. In consideration for the acquiring services, the Company mainly collects a merchant fee.

In addition to acquiring services, the Company offers merchants financial services, such as loans, discounting services for credit card sales slips, advance payments and advances, flexible crediting dates, and options for payment in installments. The Company also offers marketing and operational services, such as the incorporation of coupons and personal messages in debit statements for cardholders, sales-promotion campaigns, information regarding credits of the merchant, business cards, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures. In addition, the Company offers acquiring of gift certificates and gift cards which it issues.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants were allocated the Acquiring Segment. The main income items in the Acquiring Segment are 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 21 to the financial statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries, as well as companies that provide discounting services to merchants. Discounting companies 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 based on the principle of focusing on merchants' needs, and is conducted through a targeted sales and support system.

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

The Company operates an Internet site at the address: www.isracard.co.il, designed for merchants that have acquiring agreements with it, among others. The website provides information, including about products and services offered to merchants, the Company's rates, special offers, and benefits.

Competition

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

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

As of the date of the report, the Company is the only company to acquire, in Israel, transactions in Isracard cards, a private brand owned by the Company.

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, such as payment in installments, loans, advance payments, flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant, discounting services, loans, etc.

In order to cope with the competition in this sector, 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) a marketing, sales, and service system specializing in providing suitable solutions to merchants, and containing professional, skilled, experienced human capital; (2) a brand with presence and power; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as financing and loan services, and marketing and operational services; and (5) a robust capital structure and positive cash flow.

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

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

The Other Segment

This segment includes all of the Company's other activities that do not belong to the Issuance Segment and/or the Acquiring Segment, each of which does not constitute a reportable segment.

This operating segment includes the credit-card system operation services which the Company provides to subsidiaries of Bank Hapoalim in relation to credit cards which those companies are licensed to issue and acquire (Poalim Express, which issues and acquires American Express cards; and Aminit, which issues and acquires Visa cards). Pursuant to the aforesaid operational agreements, the Company operates issuance and acquiring activity on these companies' behalf in the credit cards which they issue, as well as acquiring of transactions executed in Israel using cards issued abroad. The aforesaid companies pay the Company fees and other payments, as agreed between them, for the operation and management of this arrangement.

This segment also includes the activity of Isracard Nechasim, with respect to its holding of 50% of the rights to an office property rented for the needs of the Company, Bank Hapoalim, and its subsidiaries, as well as activity in respect of holdings of monetary deposits formed for the Company from the issuance of gift cards.

In addition, the segment includes the Company's activity, initiated in 2008, in the area of check payment guaranteeing and check discounting. This service assures merchants coverage for checks that are not accepted, provided that the merchant complies with the terms of its agreement with the Company.

The segment also includes nonrecurring income from the sale of shares of MC (see Note 7 to the Financial Statements).

Seasonality

Given that credit-card transactions are primarily based on private consumption in Israel, seasonality in the issuance and acquiring of credit cards is mainly derived from the seasonality of private consumption in Israel.

Fixed Assets and Facilities

The Company's headquarters are located in an office building on Hamasger Street, Tel Aviv. As noted, this office building is owned by Isracard Nechasim and N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts. Isracard Nechasim rents most of the property to Isracard, and the remainder of the property to Bank Hapoalim and to subsidiaries of Bank Hapoalim. In addition, the Company rents additional offices for its routine needs, offices used as backup sites for its operations, and regional offices mainly used as offices of sales representatives.

The Company's material fixed assets also include computers, information systems and infrastructures, communications equipment, and peripheral equipment used in the areas of credit-card issuance and acquiring. These systems include mainframe computers (including for backup), open systems, hardware, and software used by the Company in its routine operations in the areas of issuance and acquiring and in operating credit-card arrangements. These systems are in line with the technical specifications defined by the international organizations.

Intangible Assets

The Company owns the trademark "Isracard." In addition, the Company has rights to several trademarks related to credit cards which it issues, acquires, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards, imprints, images, or logos appearing on credit cards, the Company's publications, documents used as means of payment and collection, etc.

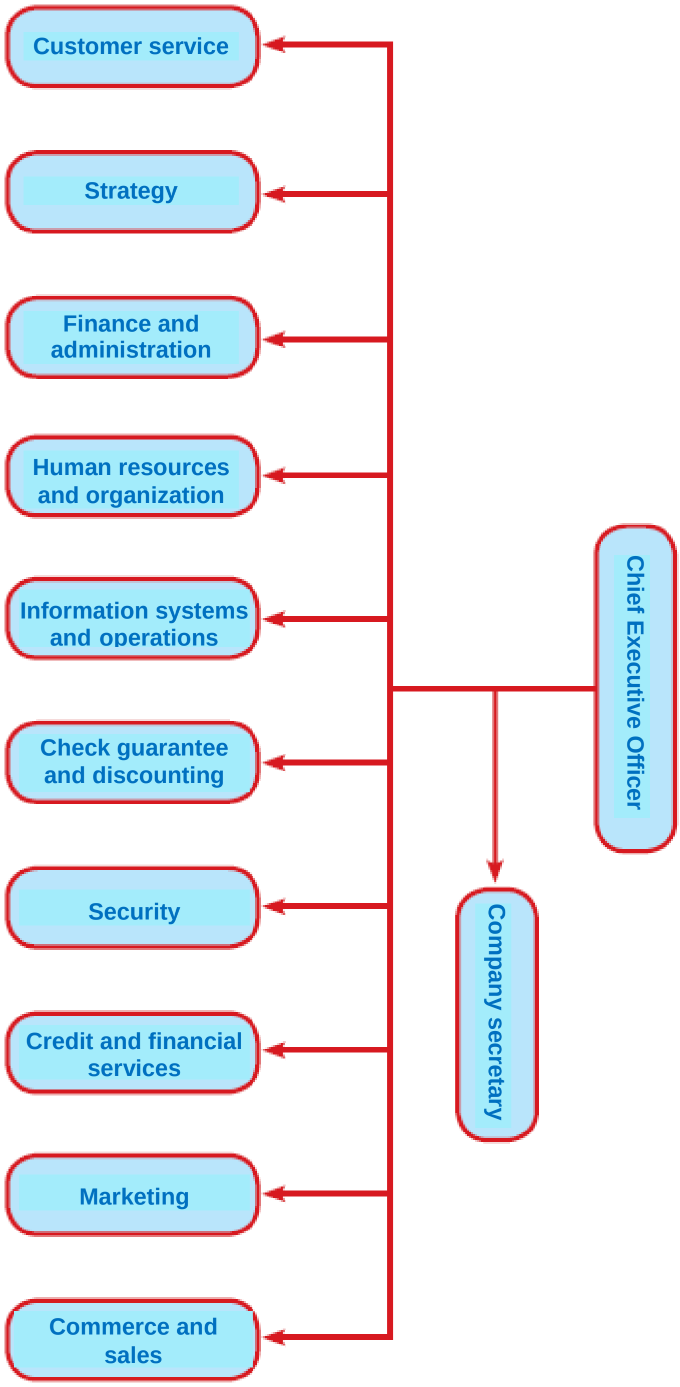
In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 5741-1981 and the regulations enacted under that law, including the duty to register a database (as defined in the Protection of Privacy Law) in accordance with the requirements of the law and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

Human Capital

Organizational Structure

The organizational structure of the Company consists of ten functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains divisions, subdivisions, and sections, according to the nature of its activity, which report to the head of the unit.

List of the Company's units:



Personnel

Total employee positions at the Company include (1) employees employed under personal employment contracts signed with the Company or with Europay; (2) employees who are part of the manpower of Bank Hapoalim, on loan to the Company – in addition to labor laws and expansion orders, the terms of employment of the majority of the aforesaid employees on loan are regularized in the Labor Constitution for Workers of Histadrut Institutions, in collective agreements, and in various agreements concerning wage terms and other benefits; and (3) external personnel.

The number of employee positions increased by 107 in 2008, compared to the number of positions at the end of 2007*:

	2008	**2007**
Average positions on a monthly basis	1,074	1,008
Total positions at year end	1,171	1,064

* In calculating the number of positions, overtime for which overtime wages are paid based on specific reports (not on a global basis) was taken into account.

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

- Structural development and organization of new areas of activity established in 2007 – credit and financial services, and check guarantee and discounting.
- Extension of infrastructures of unique professional knowledge necessary for regulatory preparations (including risk management, the Basel II guidelines, SOX 404).
- Expansion of infrastructures arising from the need for increased stability of systems supporting the Company's core operations, and from an increase in its business operations.
- Support for heavy loads due to the growth in business operations.
- Support for service objectives.

Developments in Organizational Structure

In 2008, internal structural organization of new units of the Company established in 2007 was completed – the Credit and Financial Services Unit and the Check Guarantee and Discounting Unit.

Key Activities and Trends

A. Appropriate preparations derived from the inception of the amendment to the Employment of Workers by Manpower Agencies Law, which restricts the employment of manpower agency employees to a period of up to nine consecutive months with one employer, as well as the inception of the general collective agreement on pension insurance.

B. The Company adhered to a policy of employee retention throughout 2008, reflected in several courses of action:

   - Rational wage policies.
   - Expansion of opportunities for promotion, study, and self-development.
   - Cultivating employees' relationship and identification with the Company through a wide range of activities during the year, under the heading "We are all one family." During the course of the year, special activities were held for employees in honor of Israel's sixtieth year of independence, which also served to nurture national values and impart knowledge of Israeli history to the Company's employees.

C. In general, it may be noted that the employment environment at the Company is robust. This environment is influenced by a combination of several factors: atmosphere, communications between managers and employees, and investment in employee cultivation and welfare.

D. A feedback procedure for managers was conducted during the year, in which managers were evaluated by their employees. Findings of this feedback were delivered to managers in a written report. In addition, individual feedback sessions were held with managers by external consultants, emphasizing personal goal setting, preservation of strengths, and improvement of weaknesses.

Professional Training

Key objectives in 2008 were to impart and improve professional, managerial, and behavioral skills, organizational values, support for the implementation of new products and services, and technological changes at the Company.

Activity focused on training and instruction for various roles within the Company, absorption of a service culture, training of new service representatives, targeted training for various employee groups according to area of activity, and encouragement of employees to acquire higher education. Special emphasis was placed in 2008 as well on the management and leadership program for managers at the Company, which was expanded to additional levels of management.

Community Involvement and Contribution

As a leader in its field in Israel, operating within the community, Isracard is committed to giving to the community, and in particular to supporting disadvantaged groups and those in need in Israeli society and serving Israel's youth. The Company continually strives to increase its employees' awareness of community involvement and encourages them to volunteer, with the philosophy that the added value of giving to the community is a reinforced sense of pride and cohesion of employees and stronger identification with the Company.

Contribution to the community takes the form of a wide range of community involvement activities and monetary donations sponsored by the Company, as well as volunteering activities by employees.

Notable Contributions to the Community

- Adoption of the Nahal Patrol Regiment as part of the Friends of the IDF Association's Adopt a Soldier project – The regiment was adopted by the Group for a three-year period, starting in 2006; an additional three-year adoption period began in December 2008. This program includes annual monetary donations designated for numerous, varied activities for the welfare of the regiment and troops, as well as joint activities aimed at strengthening the bonds between the regiment's soldiers and the Company's employees.

- Volunteer project at the Kadima center for adolescents in the Shapira neighborhood of Tel Aviv, including volunteer activities by employees and assistance in preparing students for matriculation examinations.

- Giving to the children of Sderot –

  Classikid – A musical education program launched in the 2007-2008 school year for preschool and elementary school children in Sderot, funded by the Company. In light of its success, this program continues in the 2008-2009 school year.

  A Loving Hug for the Children of Sderot – For several years, the Company has conducted activities for children in Sderot going into the first grade.

- Donations and aid to children in need and underprivileged families, in school supplies and food products.

- Sponsorships of various community activities and funding of cultural events for organizations in the areas of health care, education, and welfare.

- Annual donations by employees and management of the Company to activities for the benefit of the community by the organization Matan – Your Way to Give.

- Various aid and support activities for residents of communities in the conflict zone and for IDF soldiers in southern Israel, undertaken by management and employees during the Cast Lead campaign.

Service Providers

The Company's main service providers include:

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 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 agreement 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

1. To the best of the Company's knowledge, Bank Hapoalim is considering a public offering of shares of the Company and/or the introduction of a partner and/or the sale of part of its stake in the Company. At this stage, a final decision regarding the aforesaid offering has not yet been reached.

2. Further to a document of principles of November 2007 between the Company and Global Factoring Ltd. ("**Global**"), a private company in the field of factoring, and its shareholders, according to which 51% of the issued capital of Global (post-allocation) would be allocated to Isracard, a final agreement between the parties was signed in April 2008.

As of the date of the report, not all of the approvals have been received.

3. With regard to the sale of shares of MasterCard Incorporated by the Company in 2008, see Note 7 to the Financial Statements.

Financing

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

Taxation

For details regarding the Company's taxation status, see Note 27 to the Financial Statements.

Restrictions and Supervision of the Company's Operations

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

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

The aforesaid laws and directives extensively affect the conduct of the Company's business (similar to other credit-card companies), including the services it provides, 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

In May 2005, the Antitrust Commissioner (the “**Commissioner**”) declared the Company a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal of the declaration with the court. In any case, an agreement exists with the Commissioner according to which the Commissioner’s aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the “arrangement” described below.

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

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

B. A directive instructing the Company to sign a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of the aforesaid cards, under temporary interchange-fee terms (the fee paid by acquirers of credit-card transactions to the credit-card issuers), as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards, and for acquiring by the Company of Visa cards issued by the other acquirers (the “**Domestic Agreement**”).

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

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

Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner's declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below, and consequently no directives will be issued.

Following talks held between the Company, Aminit, which receives operational services from the Company, and the credit-card companies Leumi Card and CAL (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and 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 in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of 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, 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.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in acquiring Isracard and MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the

Arrangement by the Tribunal and the execution of cross-acquiring of transactions through the Technical Interface.

In November 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.

The Company signed the Domestic Agreement in May 2007.

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.

Following the recommendations of the Interministerial Committee for the Examination of Market Failures in the Credit Card Industry, in March 2007 a private bill (the "**Private Bill**") was submitted to Knesset, based on the committee's recommendations, and in April 2008 a legislative memorandum was issued by the Ministry of Finance (the "**Memorandum**"), both concerning amendment of the Banking Law (Licensing), 5741-1981. In June 2008, the Private Bill passed in Knesset in a preliminary reading.

The Private Bill and the Memorandum are not identical in scope and details, but essentially both or either propose, among other matters, the imposition of a licensing requirement by the Governor of the Bank of Israel on any party seeking to engage in the acquiring of credit cards, and the authorization of the Supervisor of Banks to determine that an acquirer of a certain percentage of transactions in charge cards (10% in the Private Bill and 20% in the Memorandum) is a "large acquirer," and that an issuer of a certain percentage of charge cards (5% in the Private Bill and 10% in the Memorandum) is a "large issuer." Such declarations by the Supervisor will enable him, if he finds it necessary in order to ensure competition in the acquiring of charge cards or in order to protect the best interests of customers or of merchants, to instruct a large issuer to allow all those acquiring charge cards to acquire transactions in its cards, and to instruct large acquirers of charge-card transactions to acquire cards issued by others. The Memorandum also proposes considering the interchange fee as a fee under the Banking Law (Customer Service), while the Private Bill proposes authorizing the Supervisor to submit a proposal to establish a maximum interchange fee to the "pricing committee" and to "the ministers," in accordance with the Supervision of Prices of Commodities and Services Law, 5756-1996. It is further proposed that the Supervisor of Banks be granted authority aimed at assisting in the implementation of the aforesaid.

The Company estimates that the materialization of any of the following: large-scale acquiring of transactions in MasterCard cards by additional acquirers other than the Company; implementation of the Arrangement and its terms, including reduction of the interchange fee or equalization of acquiring fees in Isracard cards to those of MasterCard cards; the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof; or legislation on the basis of the Private Bill or the Memorandum, and subsequent declaration of the Company as a “large issuer,” and corresponding activity by existing or new participants in the credit-card market, including in brands owned and operated by the Company, may influence the Company's courses of action and may have a material adverse impact on the Company's future financial results; however, the Company cannot estimate the extent of such an effect.

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

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 11.2 million. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low; therefore, no provision was made in respect of these claims.

2. In June 2008, a claim was filed with the District Court of Tel Aviv against the Company, along with a petition to certify the claim as a class action. The claim was presented to the Company in July 2008. The amount of the class-action suit stated in the claim statement is NIS 15 billion. The claim and the petition for class-action status, which are presented in an unclear manner and using inappropriate language, describe a sequence of events beginning with charges performed in 1999. To the best of the understanding of the Company, the claimant alleges that about nine years ago, the account of his wife at the time was debited with charges which, according to him, should not have been accepted by the Company. According to the claimant, the sales slips were falsified by a particular merchant, and the Company should have cancelled the false charge. The District Court ordered the claimant to resubmit his petition, due to an inability to understand the court documents filed on his behalf, by November 2008. After that date, the Company filed a motion to strike the petition in limine. The court ruled that this motion would be discussed in pretrial proceedings. In December 2008, the documents "corrected" by the claimant were provided, with the amount of the claim increased to NIS 18 billion. The Company moved for these documents to be removed from the court file. On March 8, 2009, a ruling was handed down according to which the petition to certify the class action was expunged.

3. In October 2008, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv against the Company. The amount of the personal claim stated in the claim statement is NIS 87.478, and the amount of the class-action suit "cannot be estimated at this stage," according to the claimants. Claimant No. 1 (the "**Claimant**"), who is the holder of a credit card issued by the Company, alleges that when he sought to pay his National Insurance fees at the Postal Bank, he was obliged to make the payment via a "Credit" transaction, which entails taking a loan from the Company. According to the Claimant, by this action the Company violated the prohibition established in the Banking Law (Customer Service) on making a service contingent upon another service. The Claimant (and another claimant who holds a credit card issued by Leumi Card) seek to represent holders of credit cards issued by the Company who

"borrowed money from the respondents because the respondents required them to do so as a condition of making a particular payment by credit card." The remedy requested is to allow customers who were not interested in such a loan to cancel the loan contract, while refunding any payments made to the Company in respect of this contract, including the interest and fee paid to the Company. The Company filed its response to the petition in January 2009, in which it stated that this was not a case of making a service contingent upon another service. The case was scheduled for a preliminary hearing in March 2009. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class-action suit and with regard to the substance of the claim, and the probability that the claim will be certified as a class action is therefore remote.

4. In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Europay, along with a petition to certify the claim as a class action. The amount of the personal claim stated in the claim statement in NIS 82, and the amount of the class-action suit is NIS 16 million. The petition for class-action status mainly concerns the allegation that the "triple" conversion method applied by the respondents in transactions executed by Israelis in most European countries, in respect of which they were debited in NIS, constitutes a violation of the agreement with the credit-card holders. The relevant period is from December 1, 2001 to March 31, 2005. A petition for class-action status has already been filed on this matter, and was dismissed by the Supreme Court. The new petition is based on the fact that the enactment of the Class Actions Law has changed the situation, and allows claims to be filed under new causes. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class action and with regard to the substance of the claim. At this stage, it is not possible to estimate the probability of certification of the claim as a class action, or the chances of the claim itself.

Contingent Liabilities

Indemnification of directors: The Company has undertaken a commitment to indemnify directors of the Company. The amount of the indemnification to be provided by the Company under this commitment to all directors of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its shareholders' equity, according to its financial statements as of June 30, 2004 (which amounted to NIS 440 million).

Objectives and Business Strategy

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

1. Maintaining the level of revenues and profitability and generating value for its shareholders, through long-term contractual engagements with the Banks Under Arrangement in order to preserve the Company's market share in the issuance segment; continued expansion of the Company's issuance and acquiring operations; internal streamlining, implementation of technological improvements, and maximization of size advantages; prevention of forgeries, fraud, and abuse; and reinforcement and improvement of risk management and credit control.

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

3. Continued implementation of the club strategy.

4. Expansion in the area of credit and financing for private and business customers.

5. Maintaining differentiation and uniqueness of the private brand Isracard.

6. Maintaining the Company's image and proprietary standing, and continued positioning as a market leader.

7. Extending collaborations with merchants.

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

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

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

Risk Management Policy

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

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.
- 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 interest rates, exchange rates, the consumer price index, and prices of securities.

The Company does not actively create exposure to market risks. Ongoing management of these risks is therefore aimed at monitoring of the risks in 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 and in rates of interest, foreign currency, the CPI, and shares.

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

Market risk management is carried out at the group level for the Company and its two subsidiaries. Risk management policy, objectives, and procedures are uniform throughout the Group. Exposure management is performed separately at the level of each 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.

During the period, the disposable capital of the companies in the Group was invested in deposits with banks in shekels, and in tradable CPI-linked Israeli government bonds.

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 on a monthly basis.

Interest-rate exposure exists primarily in the shekel segment, as it is the only segment with assets at fixed interest rates. The Company is also exposed to changes in spreads in respect of medium- and long-term floating-rate loans granted in this segment, and in respect of credit taken from banks.

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 346 million. A 1% increase in the interest rate would cause a loss of NIS 588 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 on-call loans from banks.

D. Exposure to prices of securities

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

E. 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.

The only activity in derivative financial instruments permitted to the Company is for the purposes of hedging currency exposures. For this activity, the Company has a limited number of forward contracts to hedge US dollar exposure against the shekel.

The results of hedging activity are deferred and included in the statement of profit and loss for the date when the results of the transactions in respect of which the hedging transactions were performed are reflected.

2. Policy Execution and Control of Market-Risk Management

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

Credit Risks

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

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

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

Credit Risk Management Unit

The Credit Risk Management Unit reports to the Head of Credit and Financial Services. The unit was established in 2007, within the Company's policy of expanding corporate and consumer credit granted. The Unit also handles credit control and routine monitoring of the Group's main corporate borrowers.

Provision for Doubtful Debts

The provision for doubtful debts includes a specific provision and a group 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 group provision is calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision. 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. The ratio of the periodic provision for doubtful debts to the balance of debtors in respect of credit cards is 1.3% (of which, a specific provision rate of 0.8% and a group provision rate of 0.5%). The ratio of expenses in respect of damages from the use of credit cards to the volume of activity in credit cards is 0.01%.

The net balance of debtors in respect of credit cards after provision for doubtful debts is approximately NIS 4 million.

Credit Exposure to Foreign Financial Institutions

The Company has exposure to the international organization MasterCard International Incorporated 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.

In the first stage, a quantitative survey was performed to assess the capital allocation required in order to implement the recommendations under various assumptions (QIS5), and a qualitative gap survey was performed for the implementation of Pillars I and II of the recommendations. The Company is preparing to implement the Basel II directives, according to the timeline established by the Supervisor of Banks in the circulars and implementation guidelines, including the use of software for the implementation of the three pillars. The Company has decided to adopt the standard approach to the management and control of the various risks.

Prevention of Money Laundering and Terrorism Financing

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

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

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

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

The training system has been expanded and improved.

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

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

Discussion of Risk Factors

Risk factor	Brief description	Effect
Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. The credit portfolio is a significant component of the Company's asset portfolio; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Minor
Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Minor
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. The Company operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	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

Risk factor	Brief description	Effect
Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Minor
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 the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Major
Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Major
Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Minor

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. The Company operates a security system against these risks.	Medium
Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Major
Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular the MasterCard organization, may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of Europay (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Major
Technological changes	Technological changes leading to material developments in the areas of issuance and/or acquiring, or the development of new products in these areas, may change the Company's business model and exert an adverse effect on its business results. Failure to keep up with the pace of technological changes could reduce the use of the Company's credit cards and lead to damage to its income.	Minor
Dependence on a material supplier	The Company, like the other credit-card companies in Israel, is materially dependent on ABS, which operates a system for the collection of transactions executed in credit cards in Israel for these companies, operates the local interface, and operates the Inter-Bank Settlement Center (Masav).	Major
Termination of contractual engagements with banks	The termination of the contractual engagement or substantial reduction of activity with Bank Hapoalim and/or with some of the other Banks Under Arrangement could lead to material damage to the Company's reputation and business results.	Major

Disclosure Regarding the Internal Auditor

The Company receives internal audit services from Bank Hapoalim.

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

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, 5752-1992 (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 two auditor positions 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 internal audit work plan also refers to the Company’s subsidiaries.

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

The 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 6, 2008. The summary was discussed by the Audit Committee on July 24, 2008.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

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

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

The Board of Directors

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

14 meetings of the Board of Directors and 12 meetings of the Audit Committee were held in 2008.

Directors with Accounting and Financial Expertise

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

Members of the Board

Irit Izakson	Acting Chairperson of the Board of the Company as of September 25, 2008. Also serves as Acting Chairperson of Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd. Member of the Board of Directors of Bank Hapoalim as of December 27, 1999.

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

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

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

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

In the last five years, or during part of that period, served as a director at the following companies: Koor Industries Ltd., Meshulem Levinstein Ltd., Eurocom Communications Ltd., and Nisko Industries Ltd. (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 the Company 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., Aminit Ltd., Poalim Express Ltd., Bank Hapoalim (Switzerland) Ltd., Adam Dan Ltd., Atlit Food Cooling Ltd., and Sea Gate Mariculture Ltd.

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

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

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

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

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

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

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

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

Director with accounting and financial expertise.

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

Haim Krupsky

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

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

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

Chairman of the Board of Directors of Tzameret Mimunim Ltd.

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

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

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 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.

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

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

Also serves as a director at Europay (Eurocard) Israel Ltd.

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

From March 2005 to September 2006, Head of the Central Region in the Retail Area at Bank Hapoalim B.M.

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

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

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

Director with accounting and financial expertise.

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

Yair Ben-David

Attorney, owner of a legal practice.

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

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

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

L.L.B., Tel Aviv University.

To the best of the knowledge of the Company and of Mr. Y. Ben-David, he is not a family member of another interested party of the corporation.

Tamar Ben-David

Attorney, Gross, Kleinhendler, Hodak, Berkman, & Co. Law Offices.

Member of the Board of Directors of the Company as of June 25, 2002.

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

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

Also a member of the board of directors of the following companies: Deutsche Securities Israel Ltd., Europay (Eurocard) Israel Ltd., and Aminit Ltd.

Member of the audit committees of Europay (Eurocard) Israel Ltd. and Aminit Ltd.

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

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

To the best of the knowledge of the Company and of Ms. T. Ben-David, she is not a family member of another interested party of the corporation.

Jacky Wakim

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

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

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

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

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

M.B.A.

B.A. in Economics and Accounting.

L.L.B.

C.P.A.

Director with accounting and financial expertise.

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

Ron Weksler

Head of Southern Region at Bank Hapoalim B.M.

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

Member of the Audit Committee of the Company.

Also serves as a member of the board of directors and of the audit committee at Europay (Eurocard) Israel Ltd.

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

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

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

M.B.A.

L.L.B.

B.A. in Accounting.

Director with accounting and financial expertise.

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

Eldad Kahana

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

Member of the Board of Directors of the Company as of August 8, 1979.

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: Europay (Eurocard) Israel Ltd., Aminit 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.

David Luzon

Member of the Board of Management of Bank Hapoalim B.M. as of April 1, 2000.

Head of Information Technology and Operations at Bank Hapoalim B.M.

Member of the Board of Directors of the Company as of July 19, 2000.

Also a member of the board of directors of the following companies: Europay (Eurocard) Israel Ltd., Automated Banking Services Ltd., Bank Clearing Center Ltd., Poalit Ltd.

Member of the Computerization Committee of the TASE.

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

B.Sc. in Mathematics and Computer Science, Bar Ilan University.

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

Moshe Amit

Member of the boards of directors of various companies.

Member of the Board of Directors of the Company as of May 20, 2004.

Also a member of the board of directors of the following companies: Europay (Eurocard) Israel Ltd.; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets – Investment Bank Ltd.; Tempo Beer Industries Ltd.; Blue Square Chain Properties & Investments Ltd.; AFI Development Plc, Cyprus.

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

Until December 2003, member of the Board of Management of Bank Hapoalim.

In the last five years or during part of that period, served as a director at: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd.; and as chairman of the board of Continental Bank Ltd.; however, he no longer serves at these companies.

B.A. in Social Sciences, Bar Ilan University.

Director with accounting and financial expertise.

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

Uriel Paz

Member of the Board of Management of Bank Hapoalim B.M. as of December 14, 2007.

Head of Retail Banking at Bank Hapoalim B.M.

	Member of the Board of Directors of the Company as of November 18, 2003.
	Also serves as a director at Europay (Eurocard) Israel Ltd.
	From March 2005 to December 2007, Hasharon Regional Manager at Bank Hapoalim.
	From June 2002 to March 2005, Head of Marketing and Strategic Planning Area at Bank Hapoalim.
	M.A. in Economics, Tel Aviv University.
	B.A. in Economics, Tel Aviv University.
	Director with accounting and financial expertise.
	To the best of the knowledge of the Company and of Mr. U. Paz, he is not a family member of another interested party of the corporation.
Dafna Pelli	Member of the boards of directors of various companies.
	Member of the Board of Directors of the Company as of August 18, 1999.
	Also a member of the board of directors of the following companies: Europay (Eurocard) Israel Ltd., Bank Otsar Hahayal Ltd.
	Member of the Board of Governors and Chairperson of the Finance Committee of the Jerusalem College of Engineering.
	Member of the Gabriel Sherover Foundation.
	From September 2002 to August 2006, Chairperson of the Board of Directors of Bank Otsar Hahayal Ltd.
	B.A. in Economics and International Relations, Hebrew University of Jerusalem.
	To the best of the knowledge of the Company and of Ms. D. Pelli, she is not a family member of another interested party of the corporation.
Zion Kenan	Member of the Board of Management of Bank Hapoalim B.M. as of September 30, 2001.

Head of Corporate Banking at Bank Hapoalim B.M.

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

Also a member of the board of directors of the following companies: Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Bank Pozitif Credi Ve Kalkinma Bankasi Anonim Sirketi.

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

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

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

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

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

M.A. in Labor Studies, Open University.

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

Director with accounting and financial expertise.

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

Ronny Shaten

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

Member of the Board of Directors of the Company as of February 15, 2005.

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

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

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

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

Chairman of the board of directors of Super Plast Ltd.

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

Studied Business Administration.

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

Barry Ben-Zeev

Served as a member of the Board of Directors of the Company from March 13, 2008 to September 25, 2008.

Yacov Rozen

Served as a member of the Board of Directors of the Company from August 10, 2006 to February 27, 2008.

Senior Members of Management

Dov Kotler

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

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

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

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

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

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

AMP (Advanced Management Program), Harvard University.

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

Haim Krupsky	From September 1, 1994 to January 31, 2009, CEO of the following credit-card companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd. Deputy Chairman of Poalim Express from September 23, 2001 to March 27, 2006. CEO of Poalim Express Ltd. from March 27, 2006, to January 31, 2009. Deputy Chairman of the board of directors of the Company as of February 1, 2009. Serves as a director on the board of the Company as of July 31, 1994. Also serves as deputy chairman of the board at the following companies: Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd. Chairman of the board of directors of Tzameret Mimunim Ltd. Director of Store Alliance Com Ltd. Member of the Board of Governors of the Tel Aviv Museum of Art. Until February 26, 2009, served as chairman of the board of the following companies: Isracard (Nechasim) 1994 Ltd. and Isracard Mimun Ltd. In the last five years or during part of that period, also served on the board of directors of MasterCard Europe sprl (formerly Europay International S.A.), and as chairman of the Southern Regional Board of Directors of MasterCard Europe sprl (formerly Europay International S.A. – Southern Regional Board of Directors). B.A. in Economics, Hebrew University of Jerusalem. L.L.B., Faculty of Law, Hebrew University of Jerusalem. Licensed attorney. To the best of the knowledge of the Company and of Mr. H. Krupsky, he is not a family member of another interested party of the corporation.
Eli Burg	Member of the Management of the Company as of March 1998. Head of Trade and Sales.

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

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

Ronen Zaretsky

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

Head of Information Technology and Operations.

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

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

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

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

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

David Cohen

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

Head of Customer Relations.

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

Alberto Langa

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

Head of Security.

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

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

Pinhas Shalit

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

Head of Finance and Administration.

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

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

C.P.A.

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

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

Ami Alpan

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

Head of Strategic Planning.

Serves as a member of the board of directors of the following companies: I.M.T. (as of December 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[1]

The following table lists salaries, compensation, value of benefits, employer contributions, and provisions for the five recipients of the highest wages among the senior officers of the Company, in thousands of NIS.

Wages of Senior Officers for the Year Ended December 31, 2008

	Salary	Bonuses*	Benefit due to share-based payment***	Value of additional benefits	Employer contributions and provisions[3]	Total
Haim Krupsky	1,361	592	(976)	153	216	1,346
Ronen Zaretsky	604	88	-	73	158	923
Ron Cohen	661	221	(116)	30	87	883
Pinhas Shalit	629	-	-	32	136	797
Dalia Kaizerman	671	199	(319)	99	127	777

Wages of Senior Officers for the Year Ended December 31, 2007

	Salary**	Bonuses***	Benefit due to share-based payment***	Value of additional benefits	Employer contributions and provisions[3]	Total
Dan Dankner[2]	1,038	3,284	-	233	362	4,917
Haim Krupsky	1,172	724	917	117	2,380[4]	5,310
Dalia Kaizerman	743	347	330	94	139	1,653
Eli Burg	529	251	279	99	112	1,270
Ronen Zaretsky	551	144	-	56	135	886

* The profitability and rate of return on equity of the Bank Hapoalim Group were taken into consideration in determining the amounts of the bonuses. The bonus for 2007 was calculated based on an estimate of the profit of the Bank Hapoalim Group. The bonus included in the data for 2008 results from the difference between the estimate included in the financial statements for 2007 and the actual amount paid in respect of that year. No bonuses will be paid for 2008.

** Reclassified.

*** The benefit is in the form of phantom unit options, which impart a monetary grant based on the difference between the price of the Bank Hapoalim share on the TASE and the base price. The exercise price is NIS 19.39 per unit for Mr. Haim Krupsky, NIS 18.75 per unit for Mr. Ron Cohen, and NIS 18.90 per unit for Ms. Dalia Kaizerman. The value of the benefit in 2008 is negative, as a result of the decline in price of the Bank Hapoalim share in 2008.

(1) Pursuant to an agreement with companies in the Isracard Group, those companies are debited with some operational costs, which include wages of senior officers, among other things. This table shows the full wages paid to such officers.

(2) The remuneration and the terms thereof were approved by the general assembly of the Company. The said officer concluded his term of service as Chairman of the Board of the Company on September 25, 2008. See Note 15A2a,b to the Financial Statements.

	Loans granted under benefit terms			
	Balance as of Dec. 31, 2008	Average term to maturity (in years)	Benefit granted during the year(6)	Loans granted under ordinary terms(7)
	164	3	2	18
	-	-	-	14
	-	-	-	44
	33	-	1	28
	211	-	5	71

		Loans granted under benefit terms			
	Repayment of bonus for 2005(5)	Balance as of Dec. 31, 2007	Average term to maturity (in years)	Benefit granted during the year(6)	Loans granted under ordinary terms(7)
	(5,304)	-	-	-	14
		92	1.06	2	14
		-	-	-	14
		25	0.80	1	49
		-	-	-	25

(3) Includes severance pay, compensation, pensions, study funds, vacation, National Insurance, sick leave, and Jubilee Grants, including adjustment for previous years.

(4) Includes a total of NIS 2,231 thousand arising from supplementary reserves in respect of wage costs in the accounting year and the adjustment of the provision for future allowance payments due to the signing of a new wage agreement.

(5) In accordance with the settlement arrangement in the derived claim filed against officers of the Bank with regard to the remuneration paid for 2005 to the Chairman of the Company and of Poalim Capital Markets, Mr. Dan Dankner (currently Chairman of the Board of Bank Hapoalim), Mr. Dankner agreed to repay part of his remuneration to these companies. Mr. Dankner agreed to repay approximately NIS 7.5 million (the Company's share is in the amount of NIS 5,304 thousand). The ruling of the District Court approving this arrangement became a peremptory ruling in December 2007.

(6) Loans granted under terms similar to those offered to all employees of the Company; amounts determined based on uniform criteria.

(7) Data represent credit-card balances during the ordinary course of business as of December 31.

Remuneration of Auditors[1][2]

	Consolidated		The Company	
	2008	2007	2008	2007
	(NIS thousands)			
For audit activities[3]:				
Joint auditors	722	336	702	320
For audit-related services[4]:				
Joint auditors	-	105	-	105
For tax services[5]:				
Joint auditors	78	56	61	55
For other services[6]:				
Joint auditors	371	98	352	98
Total	449	259	413	258
Total remuneration of auditors	**1,171**	**595**	**1,115**	**578**

(1) Report by the Board of Directors to the annual general assembly 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.

As of 2008, also includes an audit of the internal control of financial reporting (SOX 404).

(4) Audit-related fees – mainly includes prospectuses, special approvals, and guidance in the adjustment of the format of the financial statements to the Public Reporting Directives of the Bank of Israel.

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

(6) Mainly includes guidance in the SOX process.

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2008

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Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31			
	2008	**2007**	**2006**	**2005**
Assets				
Cash on hand and deposits with banks	931	1,309	1,495	1,321
Debtors in respect of credit-card activity*	9,252	8,727	7,880	7,279
Securities	212	113	12	12
Investments in affiliated companies	21	21	13	3
Buildings and equipment	224	195	159	155
Other assets	89	67	40	42
Total assets	**10,729**	**10,432**	**9,599**	**8,812**
Liabilities				
Credit from banking corporations	6	13	4	4
Creditors in respect of credit-card activity*	9,412	9,161	8,494	7,881
Other liabilities	387	*410	*397	343
Total liabilities	**9,805**	**9,584**	**8,895**	**8,228**
Shareholders' equity	924	848	704	584
Total liabilities and capital	**10,729**	**10,432**	**9,599**	**8,812**

* Reclassified.

Consolidated Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31			
	2008	**2007**	**2006**	**2005**
Income				
From credit-card transactions	1,146	1,076	1,007	905
Profit from financing activity before provision for doubtful debts	74	57	53	40
Others	48	18	16	13
Total income	**1,268**	**1,151**	**1,076**	**958**
Expenses				
Provision for doubtful debts	11	6	4	*-
Operating expenses	408	356	**328	281
Sales and marketing expenses	145	142	142	106
General and administrative expenses	51	44	**41	49
Payments to banks	416	408	386	364
Total expenses	**1,031**	**956**	**901**	**800**
Operating profit before taxes	**237**	**195**	**175**	**158**
Provision for taxes on operating profit	64	53	55	54
Operating profit after taxes	**173**	**142**	**120**	**104**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	(2)
Net profit	**173**	**142**	**120**	**102**
Basic diluted net profit per common share (in NIS)	**235**	**197**	**167**	**142**

* Amount lower than NIS 0.5 million.

** Reclassified.

Rates of Income and Expenses of the Credit-Card Company and its Consolidated Companies

Addendum 3

Unlinked Israeli Currency

	2008			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)(1)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(2)(3)	1,574	63	4.00	-
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total assets	**1,574**	**63**		**4.00**
Liabilities(3)	(227)	(9)	(3.96)	-
Effect of derivatives				
Hedging derivatives	(12)	*-		
Total liabilities	**(239)**	**(9)**		**(3.77)**
Interest-rate gap			**0.04**	**0.23**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

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 of the Credit-Card Company and its Consolidated Companies (cont.)

Addendum 3 (cont.)

CPI-Linked Israeli Currency

	2008			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)(1)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	129	9	6.98	-
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total assets	**129**	**9**		**6.98**
Liabilities(3)	-	-		
Effect of derivatives				
Hedging derivatives	-	-		
Total liabilities	**-**	**-**		
Interest-rate gap			**6.98**	**6.98**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) From the average balance of bonds available for sale, the average balance of unrealized losses from adjustments to fair value of bonds was added, in the amount of NIS 1 million.

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 of the Credit-Card Company and its Consolidated Companies (cont.)

Addendum 3 (cont.)

Foreign Currency (including Israeli currency linked to foreign currency)

	2008			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)(1)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)	100	64	64.00	-
Effect of derivatives				
Hedging derivatives	-	-	-	-
Total assets	**100**	**64**		**64.00**
Liabilities(3)	(84)	(53)	(63.10)	
Effect of derivatives				
Hedging derivatives	10	*-		
Total liabilities	**(74)**	**(53)**		**(71.62)**
Interest-rate gap			**0.90**	**(7.62)**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

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 of the Credit-Card Company and its Consolidated Companies (cont.)

Addendum 3 (cont.)

Total

	2008			
			Rate of income (expenses)	
	Average balance(1)(2)	**Financing income (expenses)(1)**	**Excluding effect of derivatives**	**Including effect of derivatives**
	NIS millions		**Percent**	
Monetary assets generating financing income(3)(4)	1,803	136	7.54	
Effect of derivatives				
Hedging derivatives	-	-		
Total assets	**1,803**	**136**		**7.54**
Monetary liabilities generating financing expenses(3)	(311)	(62)	(19.94)	
Effect of derivatives				
Hedging derivatives	(2)	*-		
Total liabilities	**(313)**	**(62)**		**(19.81)**
Interest-rate gap			**(12.40)**	**(12.27)**
Profit from financing activity after provision for doubtful debts		**74**		

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) From the average balance of bonds available for sale, the average balance of unrealized losses from adjustments to fair value of bonds was added, in the amount of NIS 1 million.

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 of the Credit-Card Company and its Consolidated Companies (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	2008
	Average balance[(1)(2)]
	NIS millions
Monetary assets generating financing income[(3)(4)]	1,803
Assets arising from derivative instruments	-
Other monetary assets	8,566
Group provision for doubtful debts	(4)
Total monetary assets	**10,365**
Monetary liabilities generating financing expenses[(3)]	(311)
Monetary liabilities arising from derivative instruments	(2)
Other monetary liabilities	(9,535)
Total monetary liabilities	**(9,848)**
Total surplus of monetary assets over monetary liabilities	517
Non-monetary assets	345
Non-monetary liabilities	(8)
Total capital means	**854**

For notes to this page, see the preceding page.

Rates of Income and Expenses of the Credit-Card Company and its Consolidated Companies (cont.)

Addendum 3 (cont.)

Foreign Currency (including Israeli currency linked to foreign currency)

	2008			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)(1)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Monetary assets in foreign currency generating financing income(3)	28	18	64.29	
Effect of derivatives				
Hedging derivatives	-	-		
Total assets	**28**	**18**		**64.29**
Monetary liabilities in foreign currency generating financing expenses(3)	(24)	(15)	(62.50)	
Effect of derivatives				
Hedging derivatives	3	-		
Total liabilities	**(21)**	**(15)**		**(71.43)**
Interest-rate gap			**-**	**(7.14)**

(1) Data provided before and after the effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) From the average balance of bonds available for sale, the average balance of unrealized losses from adjustments to fair value of bonds was added, in the amount of NIS 1 million.

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

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

Addendum 4

Reported amounts

In NIS millions

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	931	924	967	1,156
Debtors in respect of credit-card activity*	9,252	10,197	9,006	8,684
Securities	212	211	212	113
Investments in affiliated companies	21	21	21	21
Buildings and equipment	224	222	216	206
Other assets	89	91	82	95
Total assets	**10,729**	**11,666**	**10,504**	**10,275**
Liabilities				
Credit from banking corporations	6	19	6	14
Creditors in respect of credit-card activity*	9,412	10,354	9,266	9,080
Other liabilities*	387	407	389	396
Total liabilities	**9,805**	**10,780**	**9,661**	**9,490**
Shareholders' equity	924	886	843	785
Total liabilities and capital	**10,729**	**11,666**	**10,504**	**10,275**

* Reclassified.

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

Addendum 4 (cont.)

Reported amounts

In NIS millions

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Assets	1,309	1,528	1,380	1,587
Cash on hand and deposits with banks	8,727	8,394	8,124	7,924
Debtors in respect of credit-card activity*	113	12	12	12
Securities	21	13	13	13
Investments in affiliated companies	195	184	180	168
Buildings and equipment	67	60	49	48
Other assets	**10,432**	**10,191**	**9,758**	**9,752**
Total assets				
Liabilities	13	25	6	7
Credit from banking corporations	9,161	8,911	8,576	8,574
Creditors in respect of credit-card activity*	410	444	405	436
Other liabilities*	**9,584**	**9,380**	**8,987**	**9,017**
Total liabilities				
Shareholders' equity	848	811	771	735
Total liabilities and capital	**10,432**	**10,191**	**9,758**	**9,752**

* Reclassified.

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

Addendum 5

Reported amounts

In NIS millions

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	280	312	283	271
Profit from financing activity before provision for doubtful debts	19	25	15	15
Others	6	5	31	6
Total income	**305**	**342**	**329**	**292**
Expenses				
Provision for doubtful debts	4	3	2	2
Operating expenses	112	104	97	95
Sales and marketing expenses	35	43	37	30
General and administrative expenses	17	12	**11**	**11**
Payments to banks	91	118	103	104
Total expenses	**259**	**280**	**250**	**242**
Operating profit before taxes	**46**	**62**	**79**	**50**
Provision for taxes on operating profit	12	17	21	14
Operating profit after taxes	**34**	**45**	**58**	**36**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	*-
Net profit	**34**	**45**	**58**	**36**
Basic diluted net profit per common share (in NIS)	**45**	**61**	**79**	**50**

* Amount lower than NIS 0.5 million.

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

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	271	283	261	261
Profit from financing activity before provision for doubtful debts	14	16	14	13
Others	6	4	5	3
Total income	**291**	**303**	**280**	**277**
Expenses				
Provision for doubtful debts	4	1	*-	1
Operating expenses	94	92	84	**86
Sales and marketing expenses	39	37	34	32
General and administrative expenses	13	9	10	**12
Payments to banks	93	110	104	101
Total expenses	**243**	**249**	**232**	**232**
Operating profit before taxes	**48**	**54**	**48**	**45**
Provision for taxes on operating profit	13	14	12	14
Operating profit after taxes	**35**	**40**	**36**	**31**
The Company's share in operating profits (losses) of affiliated companies, after tax effects	*-	*-	*-	*-
Net profit	**35**	**40**	**36**	**31**
Basic diluted net profit per common share (in NIS)	**47**	**56**	**50**	**44**

* Amount lower than NIS 0.5 million.

** Reclassified.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, 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 Isracard 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, 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 Isracard 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 114. 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

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2008

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Somekh Chaikin

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

We have audited the internal control over financial reporting of Isracard (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 consolidated balance sheets as of such dates and the related statements of profit and loss, statement of changes in shareholders' equity and statements of cash flows – of the Company and consolidated – 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 consolidated 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 Isracard Ltd. – Annual Financial Statements

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

Without qualifying our opinion, we draw attention to Note 18C to the financial statements regarding Contingent Liabilities and Special Agreements, and to Note 18D(4) regarding Legal Proceedings.

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

Consolidated Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2008	2007
Assets			
Cash on hand and deposits with banks	3	931	1,309
Debtors in respect of credit-card activity	4, 5, 6	9,252	*8,727
Securities	7	212	113
Investments in affiliated companies	8	21	21
Buildings and equipment	9	224	195
Other assets	10	89	67
Total assets		**10,729**	**10,432**
Liabilities			
Credit from banking corporations	11	6	13
Creditors in respect of credit-card activity	12	9,412	*9,161
Other liabilities	13	387	*410
Total liabilities		**9,805**	**9,584**
Contingent liabilities and special agreements	18		
Shareholders' equity	14	924	848
Total liabilities and capital		**10,729**	**10,432**

* Reclassified.

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

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

Tel Aviv, March 12, 2009

Consolidated Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2008	2007	2006
Income				
From credit-card transactions[1]	21	1,146	1,076	1,007
Profit from financing activity before provision for doubtful debts	22	74	57	53
Others	23	48	18	16
Total income		**1,268**	**1,151**	**1,076**
Expenses				
Provision for doubtful debts	5	11	6	4
Operating expenses	24	408	356	**328
Sales and marketing expenses	25	145	142	142
General and administrative expenses	26	51	44	**41
Payments to banks	18G	416	408	386
Total expenses		**1,031**	**956**	**901**
Operating profit before taxes		**237**	**195**	**175**
Provision for taxes on operating profit	27	64	53	55
Operating profit after taxes		**173**	**142**	**120**
The Company's share in operating profits (losses) of affiliated companies, after tax effects		*-	*-	*-
Net profit		**173**	**142**	**120**
Basic diluted net profit per common share (in NIS)		**235**	**197**	**167**
Number of shares used in calculation		733,198	721,736	720,000

(1) Income from merchant fees is stated without offsetting fees to other issuers, which are stated separately as part of operating expenses (see Note 24).

See also Note 2 – Accounting Policies.

* Amount lower than NIS 0.5 million.

** Reclassified.

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

Report on Changes in Shareholders' Equity

Reported amounts

In NIS millions

	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of January 1, 2006	***-**	**-**	**1**	**1**	***-**	**-**	**583**	**584**
Net profit	-	-	-	-	-	-	120	120
Benefit for share-based payment transactions	-	-	*-	*-	-	-	-	*-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	*-	-	-	*-
Effect of related tax	-	-	-	-	*-	-	-	*-
Losses from cash-flow hedging	-	-	-	-	-	-	-	-
Effect of related tax	-	-	-	-	-	-	-	-
Balance as of Dec. 31, 2006	***-**	**-**	**1**	**1**	***-**	**-**	**703**	**704**
Net profit	-	-	-	-	-	-	142	142
Benefit for share-based payment transactions	-	-	1	1	-	-	-	1
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	*-	-	-	*-
Effect of related tax	-	-	-	-	*-	-	-	*-
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation(1)	*-	1	-	1	-	-	-	1
Balance as of Dec. 31, 2007	***-**	**1**	**2**	**3**	***-**	**-**	**845**	**848**

* Amount lower than NIS 0.5 million.

(1) See Note 18G3.

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

Report on Changes in Shareholders' Equity (cont.)

Reported amounts

In NIS millions

	Share capital	Premium on shares	Other capital reserves	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Losses in respect of cash-flow hedges	Retained earnings	Total shareholders' equity
Balance as of Dec. 31, 2007	***-**	**1**	**2**	**3**	***-**	***-**	**845**	**848**
Net profit	-	-	-	-	-	-	173	173
Dividend paid	-	-	-	-	-	-	(100)	(100)
Benefit for share-based payment transactions	-	-	**1**	**1**	-	-	-	**1**
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(3)	-	-	(3)
Effect of related tax	-	-	-	-	1	-	-	1
Losses from cash-flow hedging	-	-	-	-	-	*-	-	*-
Effect of related tax	-	-	-	-	-	*-	-	*-
Benefit due to share allocation(1)	-	4	-	4	-	-	-	4
Balance as of Dec. 31, 2008	***-**	**5**	**3**	**8**	**(2)**	***-**	**918**	**924**

* Amount lower than NIS 0.5 million.

(1) See Note 18G3.

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

Consolidated Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
Cash flows from operating activity			
Net profit for the year	173	142	120
Adjustments required to present operating cash flows:			
The Company's share in undistributed (profits) losses of affiliated companies	*-	*-	*-
Depreciation of buildings and equipment	42	26	23
Provision for doubtful debts	11	6	4
Loss from realization and adjustment of securities available for sale	(31)	-	-
Loss from realization of buildings and equipment	*-	*-	-
Deferred taxes, net	(7)	(4)	*-
Retirement compensation – increase in surplus of provision over amount funded	19	7	*-
Revaluation of deposits with banking corporations	(4)	(8)	(4)
(Increase) decrease in other assets	(14)	(23)	2
(Decrease) increase in other liabilities**	(43)	7	54
Net cash from operating activity	**146**	**153**	**199**
Cash flows for activity in assets			
Deposits with banks	(22)	(155)	(300)
Withdrawal of deposits from banks	170	265	312
Credit to cardholders and merchants, net**	(339)	(155)	(55)
Increase in other debtors in respect of credit-card activity, net**	(197)	(698)	(550)
Purchase of securities available for sale	(147)	(101)	-
Acquisition of buildings and equipment	(71)	(63)	(27)
Proceeds of realization of securities available for sale	77	-	-
Proceeds of realization of buildings and equipment	*-	1	*-
Purchase of shares of affiliated company	-	(8)	-
Settlement of capital note from affiliated company	-	-	(10)
Net cash used for activity in assets	**(529)**	**(914)**	**(630)**

Consolidated Statement of Cash Flows (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	2007	2006
Cash flows from activity in liabilities and capital			
Short-term credit from banking corporations, net	(7)	9	*-
Increase in creditors in respect of credit-card activity, net**	251	667	613
Benefit due to share-based payment transactions	1	**1	-
Benefit due to share allocation	4	1	-
Dividend paid to the Company's shareholders	(100)	-	-
Net cash from activity in liabilities and capital	**148**	**678**	**613**
(Decrease) increase in cash and cash equivalents	**(234)**	**(83)**	**182**
Balance of cash and cash equivalents at beginning of year	**1,145**	**1,228**	**1,046**
Balance of cash and cash equivalents at end of year	**911**	**1,145**	**1,228**

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 1 – General

A. Isracard Ltd. (the "**Company**") was established and incorporated in 1975 and is under the full control of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 5741-1981.

The Company is primarily engaged in issuing and acquiring Isracard and MasterCard brand credit-card transactions, as well as operating the credit-card systems of its sister companies: Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Aminit Ltd.

B. The financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks with regard to financial reporting by credit-card companies, opinion statements by the Institute of Certified Public Accountants in Israel, and accounting standards issued by the Israel Accounting Standards Board. The Notes refer to the consolidated financial statements of the Company and its consolidated companies. Note 30 presents the Company's condensed financial statements, including the balance sheet and the statement of profit and loss.

Note 2 – Reporting Rules and Significant Accounting Policies

A. Definitions

In these financial statements:

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
5. Affiliated company – A company, other than a consolidated company, the Company's investment in which is included in the Company's statements based on the equity method.
6. Investee company – A consolidated company or an affiliated company.
7. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel.
8. 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.)

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

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

11. USD – United States dollar.

12. 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.

13. 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.

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

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

B. Financial Statements in Reported Amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements for Inflation." In accordance with this standard, and in accordance with Accounting Standard No. 17 of December 2002, the adjustment of financial statements ceased as of January 1, 2004. The adjusted amounts appearing in the financial statements for December 31, 2003 were used as a starting point for nominal financial reporting as of January 1, 2004. Until December 31, 2003, the Company's financial statements were prepared based on historical cost adjusted for changes in the general purchasing power of Israeli currency (Note 30 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.

4. Balance sheets:

   Non-monetary items are presented in reported amounts.

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

B. Financial Statements in Reported Amounts (cont.)

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 D 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.

6. Reports on changes in shareholders' equity:

   Dividends declared or actually paid during the reported period 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. Consolidation of the Financial Statements and Application of the Equity Method

1. Principles of consolidation:

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

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

2. Investment in shares of an affiliated company – Presented according to the equity method, based on the audited financial statements of that company.

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

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

E. 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, other than shares and options to purchase shares for which no fair value is available, which are presented at cost. 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.

The Company examines, from time to time, whether declines in value of an other-than-temporary nature have occurred in its permanent investments in other companies. This examination is performed when signs exist that may indicate the possibility that the value of the permanent investments has been impaired, including a decline in stock-market prices, in the investee's business, or in the industry in which the investee operates, and other parameters. The deductions for the adjustments of the value of these investments, which in the opinion of Management are based on an examination of all relevant aspects, with appropriate weight granted to each, which are not of a temporary nature, are allocated to the statement of profit and loss.

F. 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.

G. 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.

H. 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.

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

H. Provision for Doubtful Debts (cont.)

The financial statements also include a group provision for doubtful debts, calculated based on past experience, in respect of debts with risk characteristics which have not yet been identified requiring a specific provision.

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

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

J. Buildings and Equipment

1. Buildings and equipment are recognized for the first time at cost, including costs directly attributable to the acquisition of the buildings and equipment.

2. In periods subsequent to the first-time recognition, these items are stated at cost, less accrued depreciation, and less accrued losses for decline in value.

3. Depreciation and depreciation method:

   (A) The Company separately depreciates each part of buildings and equipment that is significant relative to the total cost of the item. Depreciation expenses for each period are recognized in profit or loss, or capitalized to another asset, in accordance with generally accepted accounting principles.

   (B) The Company uses the "straight-line method" to allocate the depreciable amount of buildings and equipment systematically over their useful life. The depreciation method used reflects the forecast pattern for the consumption of future economic benefits of the asset.

   (C) The Company reviews the residual value, the useful life of the item of buildings and equipment, and the depreciation method used, at least at the end of each fiscal year. Changes are treated as changes in accounting estimates, in accordance with generally accepted accounting principles.

4. Improvements to rented properties are depreciated over the rental period, including the option period, or over their useful life, whichever is shorter.

Note 2 – Significant Accounting Policies (cont.)

J. Buildings and Equipment (cont.)

5. Annual depreciation rates:

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

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

6. 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.

K. 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 consolidated balance sheet (to which the Standard applies) are not stated at an amount in excess of their recoverable amount, which is the higher of the net selling price and the usage value (the present value of the estimated future cash flows expected to derive from the use and realization of the asset).

The Standard applies to all assets in the consolidated balance sheet, with the exception of tax assets and monetary assets (excluding monetary assets which are investments in investee companies that are not subsidiaries). When the value of an asset in the consolidated 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.

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

L. 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.

Tax benefits in respect of grants of capital instruments to employees for which no expense has been recognized were allocated to shareholders' equity in the period in which the deduction was recognized for tax purposes.

M. Share-Based Payments

1. The Deputy Chairman of the Board of Directors of the Company and several of its employees have been granted options exercisable into shares of the Parent Company, as well as rights to receive cash payments based on increases in the share price of the Parent Company on the stock market (phantom options).

2. Share-based payment transactions include transactions with employees or other parties settled in capital instruments, in cash, or in other assets. Share-based payment transactions in which goods or services are received in consideration for the payment are recorded at fair value.

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

   The Company records the benefit created by the allocation of option notes to employees as a 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.

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

M. Share-Based Payments (cont.)

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

N. Employee Rights

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

Severance-pay and pension liabilities are mostly covered by amounts funded deposited with provident funds for pension 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. See Note 15.

O. Contingent Liabilities

A provision for legal claims is required in the financial statements, according to Management's estimates and based on the opinions of its legal advisors. Note 18 addresses claims pending against the Company. The disclosure is in the format set forth in the directives of the Supervisor of Banks, such that the claims filed against the Company are classified into three risk groups:

1. Expected risk – the probability of any loss in the claim is over 70%, and a provision for the amount at risk is included in the financial statements.

2. Possible risk – the probability of any loss in the claim is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group.

3. Remote risk – the probability of any loss in the claim is under 20%. No provision is included in the financial statements in respect of claims in this risk group.

P. Derivative Financial Instruments

Derivative financial instruments designated for protection are stated in the balance sheet at fair value. The effective part of changes in the fair value is allocated to the "capital reserves" item in the statement of changes in equity, in the period in which they occur.

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

P. Derivative Financial Instruments (cont.)

Recognition of income from derivatives:

(A) The results of forward currency transactions for trading purposes are allocated to the statement of profit and loss on a current basis, upon formation.

(B) The results of hedging transactions are allocated to the statement of profit and loss concurrently with the recording of results of the protected transactions and the protected items.

(C) Profits and losses arising from changes in the fair value of financial instruments held for trading purposes are allocated to the statement of profit and loss upon formation.

(D) In "firm commitment" hedging transactions, recognition of the results of the derivatives is deferred until the date of recognition of the commitment as an asset or liability in the balance sheet.

Q. 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.

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.

R. Earnings Per Share

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

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

S. Segmental Reporting

Segmental reporting is presented in accordance with the directives of the Supervisor of Banks – see also Note 28.

T. Statement of Cash Flows

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

U. 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.

V. Foreign Currency and Linkage

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

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

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

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

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

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

W. 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.

X. 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.

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

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

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

- ♦ International Financial Reporting Standards;
- ♦ In the absence of a specific reference in the International Financial Reporting Standards, generally accepted accounting principles in the United States (US GAAP) applicable to banking corporations in the United States will apply, provided that they do not contradict International Financial Reporting Standards;
- ♦ In the absence of a reference in US GAAP, the sections of Standard 23 will apply, provided that they do not contradict International Financial Reporting Standards and US GAAP, as noted above.

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 according to the American standards as stipulated in the Public Reporting Directives.

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

X. 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" (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 ("**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.)

X. 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 the year beginning on January 1, 2010 (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.)

X. 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 millions

	December 31	
	2008	2007
Cash on hand	30	41
Deposits with banks for an original term of up to 3 months	881	1,104
Total cash and cash equivalents	**911**	**1,145**
Other deposits with banks	20	164
Total	**931**	**1,309**

Note 4 – Debtors in Respect of Credit-Card Activity

Reported amounts

	2008		December 31	
	Average annual interest rate		2008	2007
	For daily balance	For transactions in the last month		
	%	%	In NIS millions	
Debtors in respect of credit cards [(1) (3)]			8,440	*8,249
Credit to cardholders [(2) (3)]	8.43	8.16	353	*257
Credit to merchants [(4)]	6.64	7.56	361	*118
Total			**9,154**	**8,624**
Less: Provision for doubtful debts			(38)	(27)
Total debtors and credit to credit-card holders and merchants			**9,116**	**8,597**
Companies and international credit-card organization			119	*126
Income receivable			16	4
Others			1	*-
Total debtors in respect of credit-card activity			**9,252**	**8,727**
(1) Of which, under the responsibility of banks			8,087	7,909
(2) Of which, under the responsibility of banks			45	43

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

(4) Includes advance payments to merchants in the amount of NIS 202 million (Dec. 31, 2007: NIS 66 million).

* Reclassified.

Note 5 – Provision for Doubtful Debts

Reported amounts

In NIS millions

A. Consolidated

	Specific provision(1)	Provision on group basis	Total
Balance of provision as of January 1, 2006	**17**	**-**	**17**
Net provisions for 2006	3	1	4
Balance of provision as of December 31, 2006	**20**	**1**	**21**
Net provisions for 2007	5	1	6
Balance of provision as of December 31, 2007	**25**	**2**	**27**
Net provisions for 2008	6	5	11
Balance of provision as of December 31, 2008	**31**	**7**	**38**

B. The Company

	Specific provision(1)	Provision on group basis	Total
Balance of provision as of January 1, 2006	**17**	**-**	**17**
Net provisions for 2006	2	*-	2
Balance of provision as of December 31, 2006	**19**	***-**	**19**
Net provisions for 2007	(1)	1	-
Balance of provision as of December 31, 2007	**18**	**1**	**19**
Net provisions for 2008	*-	*-	*-
Balance of provision as of December 31, 2008	**18**	**1**	**19**

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

* Amount lower than NIS 0.5 million.

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	Credit risk[(3)]
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,332,553	2,445	2,243	931
Borrower balances over 5 and up to 10	347,379	2,548	2,417	132
Borrower balances over 10 and up to 15	117,845	1,460	1,365	48
Borrower balances over 15 and up to 20	45,267	791	724	22
Borrower balances over 20 and up to 30	29,895	735	642	15
Borrower balances over 30 and up to 40	8,837	310	261	4
Borrower balances over 40 and up to 80	6,164	333	276	3
Borrower balances over 80 and up to 150	964	109	76	1
Borrower balances over 150 and up to 300	325	72	33	-
Borrower balances over 300 and up to 600	139	64	19	-
Borrower balances over 600 and up to 1,200	46	42	13	-
Borrower balances over 1,200 and up to 2,000	28	55	18	-
Borrower balances over 4,000 and up to 8,000	7	43	-	-
Borrower balances over 8,000 and up to 20,000	3	35	-	-
Borrower balances over 20,000 and up to 40,000	3	94	-	-
Borrower balances over 40,000 and up to 200,000	1	106	-	-
Total	**1,889,456**	**9,242**	**8,087**	**1,156**
Income receivable and other debtors		17	-	-
Total	**1,889,456**	**9,259**	**8,087**	**1,156**

(1) After deducting specific provisions for doubtful debts.

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

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of the borrower (excluding credit facilities under the responsibility of banks).

Note 7 – Securities

Reported amounts

In NIS millions

	December 31, 2008			
	Balance-sheet value	Depreciated cost (in shares – cost)	Unrecognized profits (losses) from adjustments to fair value	Fair value***
Securities available for sale:				
Shares of others**	61	61	*-	61
Israeli government linked bonds	151	153	(2)	151
Total securities available for sale	**212**	**214**	**(2)**	**212**

	December 31, 2007			
	Balance-sheet value	Depreciated cost (in shares – cost)	Unrecognized profits from adjustments to fair value	Fair value***
Securities available for sale:				
Shares of others**	**113**	**113**	****-	**113**

* Amount lower than NIS 0.5 million.

** Includes shares for which no fair value is available, which are presented at cost, in the amount of NIS 61 million as of December 31, 2008 (Dec. 31, 2007: NIS 112 million).

*** Fair value data are usually based on stock-market prices.

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

Acquisition of Shares of MasterCard Incorporated

On December 13, 2007, the Company purchased 150,380 Class B Common Stock shares of MasterCard Incorporated (hereinafter: "MC") from Europay (Eurocard) Israel Ltd. (a sister company), in consideration for a total of approximately NIS 101 million. The amount of the purchase reflects the fair value of the investment at that date.

Class B shares of MC are blocked until May 2010 and cannot be sold on the stock market in the United States; however, they can be transferred in private transactions among MC members.

The aforesaid notwithstanding, MC occasionally allows defined "time windows" during which certain quantities of Class B shares of MC may be converted into Class A shares of MC for sale on or off the stock market, as noted.

Note 7 – Securities (cont.)

Such a window occurred in June 2008, and the Company converted 76,386 shares into Class A shares and sold the shares on the stock market, in consideration for a total of approximately NIS 77 million. Following this sale, the Company has 73,994 remaining Class B shares of MC.

Because the Company is a member of MC, it was entitled to purchase the entire balance of Class B shares held by Europay (Eurocard) Israel Ltd.

The investment in MC shares is presented on a cost basis within the “Securities” item in the balance sheet.

Note 8 – Investments in Investee Companies

Reported amounts

In NIS millions

	December 31	
	2008	2007
A. Item composition:		
Investments in shares by equity method [(1)]	21	21
Of which – losses accrued since acquisition date	(3)	(3)

(1) Includes a payment in the amount of NIS 8 million; see Note 29(3).

B. Details of principal investee companies (in the Company's balance sheet):

	2008			
	Share in capital granting the right to receive profits	Share in voting rights	Investment in shares by equity method	Contribution to net operating profit
	%	%	In NIS millions	
Isracard Mimun Ltd.	100	100	-	1
Isracard (Nechasim) 1994 Ltd.	100	100	**11	5

	2007			
	Share in capital granting the right to receive profits	Share in voting rights	Investment in shares by equity method	Contribution to net operating profit
	%	%	In NIS millions	
Isracard Mimun Ltd.	100	100	*-	*-
Isracard (Nechasim) 1994 Ltd.	100	100	**20	7

* Amount lower than NIS 0.5 million.

** Includes an investment in capital notes in the amount of NIS 11 million as of December 31, 2008 (2007: NIS 20 million).

Note 9 – Buildings and Equipment

Reported amounts

In NIS millions

Consolidated

A. Composition:

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs[(1)]	Vehicles	Furniture and office equipment	Other	Total
Cost:								
As of January 1, 2008	69	62	191	47	*-	30	2	401
Additions	-	5	30	31	-	5	-	71
Subtractions	-	-	-	-	*-	-	-	*-
As of December 31, 2008	**69**	**67**	**221**	**78**	*-	**35**	**2**	**472**
Accrued depreciation:								
As of January 1, 2008	9	24	132	20	*-	21	-	206
Additions	1	2	25	13	*-	1	-	42
Subtractions	-	-	-	-	*-	-	-	*-
As of December 31, 2008	**10**	**26**	**157**	**33**	*-	**22**	**-**	**248**
Depreciated balance as of December 31, 2008	**59**	**41**	**64**	**45**	*-	**13**	**2**	**224**
Depreciated balance as of December 31, 2007	**60**	**38**	**59**	**27**	*-	**9**	**2**	**195**
Average weighted depreciation rate in 2008	2.0	6.7	25.0	25.0	15.0	7.8	0	
Average weighted deprecation rate in 2007	1.3	4.6	23.8	22.3	15.0	10.0	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

B. Buildings in the amount of NIS 17 million are not in use by the Company and its consolidated companies.

Note 9 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition:

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:								
As of January 1, 2008		5	190	47	*-	29	2	273
Additions		5	30	31	-	5	-	71
Subtractions		-	-	-	*-	-	-	*-
As of December 31, 2008		**10**	**220**	**78**	*-	**34**	**2**	**344**
Accrued depreciation:								
As of January 1, 2008		*-	132	20	*-	20	-	172
Additions		1	24	13	*-	1	-	39
Subtractions		-	-	-	*-	-	-	*-
As of December 31, 2008		**1**	**156**	**33**	*-	**21**	**-**	**211**
Depreciated balance as of December 31, 2008		**9**	**64**	**45**	*-	**13**	**2**	**133**
Depreciated balance as of December 31, 2007		**5**	**59**	**27**	*-	**9**	**2**	**102**
Average weighted depreciation rate in 2008		10.0	25	25	15.0	7.9	0	
Average weighted deprecation rate in 2007		0.9	23.8	22.3	15.0	10.1	0	

(1) Includes capitalized software costs.

* Amount lower than NIS 0.5 million.

Note 10 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2008	**2007**
Deferred taxes receivable, net (see Note 27)	**21**	**13**
Other debtors and debit balances:		
Surplus of advance income-tax payments over current provisions	13	11
Loans to employees	3	3
Prepaid expenses	22	11
Related companies	28	20
Others	2	9
Total other debtors and debit balances	**68**	**54**
Total other assets	**89**	**67**

Note 11 – 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 millions	
Credit in current drawing accounts	**5.0**	**5.0**	**6**	**13**

Note 12 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2008	2007
Merchants (1)	9,115	*8,956
Liabilities in respect of deposits	2	*2
Company and international credit-card organization	93	*50
Prepaid income	2	1
Loyalty program	43	33
Expenses payable	51	22
Others	106	*97
Total creditors in respect of credit-card activity	**9,412**	**9,161**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 38 million as of December 31, 2008 (Dec. 31, 2007: NIS 7 million).

* Reclassified.

Note 13 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2008	**2007**
Provision for deferred taxes, net (see Note 27)	5	4
Surplus of provision for employee rights over amount funded (see Note 15)	37	18
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	21	29
Suppliers of services and equipment	53	48
Expenses payable	53	60
Institutions	8	10
Europay (Eurocard) Israel Ltd. (a related party)	181	217
Others	29	*24
Total other creditors and credit balances	**345**	**388**
Total other liabilities	**387**	**410**

* 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 0.0001	100	73
Special share of NIS 0.0001 [1]	-	-
	100	**73**

	December 31, 2007	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 0.0001	100	73
Special share of NIS 0.0001 [1]	-	-
	100	**73**

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

See also Note 18G3 below with regard to the allocation of 13,198 shares of NIS 0.0001 to Mizrahi-Tefahot Bank Ltd in 2007.

With regard to the allocation of options to the CEO of the Company after the balance-sheet date, see Note 15F1.

B. Share rights

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

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

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

C. Capital for the calculation of the capital ratio

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

	December 31	
	2008	2007
	Balances	Balances
	NIS millions	
Primary capital	**924**	**848**

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

Reported amounts

In NIS millions

D. Weighted risk balances

	December 31, 2008						
Credit risk	**Balances**	**Weighting rate**				**Risk balance**	**Capital requirements**
		0%	**20%**	**50%**	**100%**		
Assets							
Cash on hand and deposits with banks	931	-	931	-	-	186	17
Debtors in respect of credit-card activity	9,252	-	8,132	-	1,120	2,746	247
Securities	212	151	-	-	61	61	5
Investments in affiliated companies	21	-	-	-	21	21	2
Buildings and equipment	224	-	-	-	224	224	20
Other assets	89	13	-	-	76	76	7
Total assets	**10,729**	**164**	**9,063**	**-**	**1,502**	**3,313**	**298**
Off-balance-sheet instruments							
Derivative instruments	1	-	1	-	-	*-	*-
Total off-balance-sheet instruments	1	-	1	-	-	*-	*-
Total credit risk assets	**10,730**	**164**	**9,064**	**-**	**1,502**	**3,313**	**298**
Market risk							
In respect of foreign currency	**-**	**-**	**-**	**-**	**-**	**31**	**3**
Total risk assets	**10,730**	**164**	**9,064**	**-**	**1,502**	**3,344**	**301**

* Amount lower than NIS 0.5 million.

** Assets – balance-sheet balances; off-balance-sheet instruments – par value balances weighted by coefficients for conversion to credit.

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

Reported amounts

In NIS millions

D. Weighted risk balances (cont.)

	December 31, 2007						
Credit risk	**Balances**	**Weighting rate**				**Risk balance**	**Capital requirements**
		0%	**20%**	**50%**	**100%**		
Assets							
Cash on hand and deposits with banks	1,309	-	1,309	-	-	262	24
Debtors in respect of credit-card activity	8,727	-	7,952	-	775	2,365	213
Securities	113	-	-	-	113	113	10
Investments in affiliated companies	21	-	-	-	21	21	2
Buildings and equipment	195	-	-	-	195	195	18
Other assets	67	11	7	-	49	50	4
Total assets	**10,432**	**11**	**9,268**	**-**	**1,153**	**3,006**	**271**
Off-balance-sheet instruments							
Derivative instruments	2	-	2	-	-	*-	*-
Total off-balance-sheet instruments	**2**	**-**	**2**	**-**	**-**	***-**	***-**
Total credit risk assets	**10,434**	**11**	**9,270**	**-**	**1,153**	**3,006**	**271**
Market risk							
In respect of foreign currency	-	-	-	-	-	42	4
Total risk assets	**10,434**	**11**	**9,270**	**-**	**1,153**	**3,048**	**275**

* Amount lower than NIS 0.5 million.

** Assets – balance-sheet balances; off-balance-sheet instruments – par value balances weighted by coefficients for conversion to credit.

E. Ratio of capital to risk-adjusted assets

	December 31	
	2008	**2007**
	%	**%**
Ratio of overall capital to risk-adjusted assets	27.6	27.8
Minimum overall capital ratio required by Supervisor of Banks	9.0	9.0

Note 15 – Employee Rights (cont.)

A. Retirement Compensation and Pensions (cont.)

Note 15 – Employee Rights

A. Retirement Compensation and Pensions

1. General

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

2. Personal Contracts – Chairman of the Board of Directors, Deputy Chairman of the Board, and CEO of the Company

(A) Ms. Irit Izakson was elected to serve as Chairperson of the Board of Directors of the Company on September 25, 2008. The terms of employment of Ms. Izakson in this capacity had not yet been established by the date of publication of these reports. Ms. Izakson is also a member of the Board of Directors of Bank Hapoalim.

(B) Mr. Dan Dankner, who completed his term of service as Chairman of the Board of Directors of the Company on September 25, 2008, and serves as Chairman of the Board of Directors of Bank Hapoalim (hereinafter: the "Bank") as of June 24, 2007, is entitled, according to the approval by the general meeting on September 28, 2005, at the end of his term of service at the Company, to retirement pay at a rate of 250% per year, and six months' adjustment pay. Notwithstanding and in addition to the aforesaid, should he cease to serve as Chairman of the Board of Directors of the Company other than on his own initiative, he shall be entitled to double the amount owed for adjustment pay.

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

Pursuant to a resolution of the Audit Committee and the Board of Directors of the Bank, which was approved by the general meeting of the Bank on March 20, 2008, Mr. Dankner did not receive payment for his service as Chairman of the Board of Directors of the Company during the period from January 1, 2008 to the end of his term in that position.

Note 15 – Employee Rights (cont.)

A. Retirement Compensation and Pensions (cont.)

(C) The Deputy Chairman of the Board of Directors, who served as CEO of the Company until January 31, 2009, was employed under a personal contract signed with the Bank for the period from January 1, 2007 to the end of his term of service as CEO of the Company. Concurrently, an agreement was signed between the CEO and the Company, according to which upon the termination of his term of service as CEO of the Company, he would serve as Acting Deputy Chairman of the Company under the same terms of employment. The agreement was signed for the period from the date of termination of his term of service as CEO of the Company to December 31, 2009.

Pursuant to the aforesaid agreements, at the date of termination of the employee-employer relationship between the Bank or the Company, as relevant, and the Deputy Chairman of the Board of Directors of the Company, if the sum of his age and his period of employment exceeds 75 years (provided he has not reached the age of 62 years), the Deputy Chairman of the Board of Directors will be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his last monthly salary multiplied by the number of years of employment, or a monthly pension at varying rates to be paid from the date of his early retirement until he reaches the retirement age specified by law. The rate of the pension is 2.67% per year for the first 15 years of work, 2% per year for each additional year in which he did not serve at the rank of a Member of the Board of Management of the Bank, and 2.5% for each year in which he served in any position at the rank of a Member of the Board of Management of the Bank, up to a maximum rate of 70% of the wages that entitle him to the pension. After reaching the age of 62, the Deputy Chairman of the Board of Directors of the Company may choose either the monthly pension only, or compensation at a rate of 100%.

The terms of employment were approved by the Audit Committee and the Board of Directors of the Company, and by the general meeting of the Company.

(D) The CEO of the Company, appointed on February 1, 2009 (the "**Current CEO**"), is employed under a personal contract, pursuant to which at the end of the term of the agreement, or in the event that his employment is terminated, either at his own initiative or at the initiative of the Company, he will be entitled to receive the full provisions for retirement pay, pensions, and compensation, as well as a supplement of the amount of compensation to 100% if the amount of the compensation is lower. He will also be entitled to the payment of his full terms of employment during the advance notice period prior to the cessation of his term of service, which is three months in the event of termination at his own initiative, or six months in the event of termination other than at his initiative.

The terms of employment of the Current CEO were approved by the Audit Committee and the Board of Directors of the Company.

Note 15 – Employee Rights (cont.)

A. Retirement Compensation and Pensions (cont.)

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

B. Bonuses

1. As noted above, the terms of employment of the Chairperson of the Board of Directors had not yet been established by the date of publication of these reports.

2. Pursuant to a resolution of the general meeting of the Bank of March 20, 2008, Mr. Dankner did not receive payment for his service as Chairman of the Board of Directors of the Company during the period from January 1, 2008 to the end of his term in that position.

   The former Chairman of the Board of Directors was entitled to an annual bonus for 2007, in accordance with the approval of the general meeting of shareholders of the Bank.

   The aforesaid annual bonus was at varying rates, based on the net profit of the Bank, after subtracting all profits of the Bank arising from the forced sale of assets within the legislation known as the Bachar Reform.

   Pursuant to the settlement arrangement in a derived claim filed against officers of Bank Hapoalim with regard to the remuneration paid for 2005 to the former Chairman of the Company and of Poalim Capital Markets, Mr. Dan Dankner (who currently serves as Chairman of the Board of the Bank), Mr. Dankner agreed to return part of his remuneration to these companies. Mr. Dankner agreed to repay approximately NIS 7.5 million (of that amount, a total of NIS 5.3 million was repaid to the Company). The District Court ruling approving this arrangement became a peremptory ruling in December 2007.

   As noted in Section A(2)(B) above, the former Chairman of the Board of Directors ceased receiving wages from the Company as of January 1, 2008.

3. Pursuant to the agreements noted in Section A(2)(C) above, the Deputy Chairman of the Board of Directors of the Company is entitled to a signing bonus for every year of work and an annual bonus derived from the amount of his wages and from the Bank's rate of net return on equity.

Note 15 – Employee Rights (cont.)

B. Bonuses (cont.)

4. Under his employment agreement, the Current CEO of the Company is entitled to an annual bonus at varying rates, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group in which he serves as CEO relative to the basic profit, which is the average annual profit in 2007-2008 (excluding nonrecurring events that are not part of the ordinary course of the Company's business). The total bonus each year will be in an amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for the receipt of a bonus in a particular year.

5. Under an agreement signed between the Bank and the Employees' Union of the Bank, some employees are entitled to an annual bonus expressed in units of monthly wages at varying amounts, based on the Bank's rate of net return on equity. The bonus for each individual employee is differential and is based on the employee's achievements. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus. Based on the expected rate of net return on equity of the Bank in 2008, the employees are not entitled to an annual bonus.

6. Pursuant to his employment agreement, the Bank allocated 800,000 phantom units (a monetary grant based on the change in the price of the Bank's share on the Tel Aviv Stock Exchange) to the Deputy Chairman of the Board of Directors of the Company, at no cost, for the years 2007-2009. Should the Company's shares be floated to the public, the Deputy Chairman of the Board of Directors will be granted phantom units and/or option notes for shares of Isracard, and/or shares of Isracard at a value or at terms as granted to the CEO of the Company serving at that time. In such a case, the Deputy Chairman of the Board of Directors will be entitled to exercise a relative part of the 800,000 phantom units allocated to him by the Bank reflecting the ratio of the period from January 1, 2007 until the date of the floating of the Company's shares to the public, to the entire period of the agreement.

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

8. Some employees are entitled to compensation for unutilized sick days upon retirement.

The financial statements include appropriate provisions in respect of Sections (7) and (8) above, based on actuarial calculations, which include a real wage increment at a rate of 1% per year, and capitalized at an annual discount rate of 4%, with a total balance of approximately NIS 6 million (2007: NIS 5 million).

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

Note 15 – Employee Rights (cont.)

C. Liabilities in respect of the termination of employer-employee relationships

The balance of the provision in respect of liabilities for the termination of employer-employee relationships amounts to NIS 44 million (2007: NIS 33 million).

D. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required incidental expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 3 million (2007: NIS 3 million).

E. Retirement Program

The balance of the provision for retirement programs implemented in recent years amounts to NIS 13 million. The provision is based on actuarial calculations, including a real wage increment at a rate of 1% per year, and capitalized at an annual discount rate of 4% (2007: NIS 14 million).

The balance of non-pension post-retirement benefits amounts to NIS 6 million.

The amounts of reserves and amounts funded for employee rights, as stated in the balance sheet, are as follows:

Amount of provision	67
Amounts funded	30
Surplus of provision over amounts funded	37

The surplus provision is included under the item "Other liabilities."

F. Options to Employees

1. Pursuant to his employment agreement, 7,404 nontradable option notes exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each will be allocated to the Current CEO of the Company. The value of the benefit for each option will be examined by an external assessor.

Note 15 – Employee Rights (cont.)

F. Options to Employees (cont.)

The vesting periods of the options are as follows: 1/3 of the options vest on March 1 of each of the years 2010, 2011, and 2012. The Current CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

As a rule, the Current CEO of the Company is not permitted to sell the shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock exchange, or a change in control of the Company. The options will be exercised based on the net exercise mechanism; at the time of exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that time.

Bank Hapoalim has the first offer right and the first refusal right in any transfer of shares by the Current CEO of the Company. The Current CEO of the Company has the right to join a sale of shares by Bank Hapoalim, under certain conditions.

The agreement also includes provisions related to the options in the event of the termination of service of the Current CEO of the Company. In addition, in the event that the term of service of the Current CEO of the Company ends before the shares are listed for trading on the stock exchange, Bank Hapoalim will have the right to purchase the shares, under certain conditions.

The options will be granted under the capital gains track established in Section 102 of the Income Tax Ordinance [New Version], 5721-1961.

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

   Up to and including 2008, 413,320 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black & Scholes model, amounts to approximately NIS 5 million.

G. Wage Agreement

In October 2007, understandings were reached between the Board of Management of the Bank and the Employees' Union of the Bank with regard to the terms of employment of employees. These understandings are intended to cover all remuneration of employees for the period from 2005 to 2012.

G. Wage Agreement (cont.)

In accordance with the understandings, the Bank paid its employees, including employees of the Company on loan from the Bank, a one-time bonus in the amount of one monthly salary on November 1, 2007. Another bonus in the amount of one monthly salary was paid to employees on January 1, 2009. Employees' combined salaries increased by 3.5% as of January 1, 2008, and will increase by an additional 2.5% as of January 1, 2010. As part of the understandings, the agreements reached between the Board of Management of the Bank and the Employees' Union in March 2004 with regard to the option plan for Bank employees, the manner and extent of ranking, the pace of promotions, the seniority mechanism, and the annual bonus will be extended and will remain in effect until the end of 2012. Option allocation to employees in the three years from 2010 to 2012 requires approval by the Board of Directors of the Bank.

Note 16 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2008					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	894	8	26	3	-	931
Debtors in respect of credit-card activity	9,124	53	75	*-	-	9,252
Securities	-	151	-	-	61	212
Investments in affiliated companies	-	-	-	-	21	21
Buildings and equipment	-	-	-	-	224	224
Other assets	64	3	-	-	22	89
Total assets	**10,082**	**215**	**101**	**3**	**328**	**10,729**
Liabilities						
Credit from banking corporations	6	-	-	-	-	6
Creditors in respect of credit-card activity	9,277	49	84	-	2	9,412
Other liabilities	392	-	(10)	-	5	387
Total liabilities	**9,675**	**49**	**74**	**-**	**7**	**9,805**
Difference	**407**	**166**	**27**	**3**	**321**	**924**
Effect of hedging derivative instruments:						
Derivative instruments (excluding options)	11	-	(11)	-	-	-

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	December 31, 2007					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	1,196	86	25	2	-	1,309
Debtors in respect of credit-card activity**	8,561	52	114	*-	-	8,727
Securities	-	-	-	-	113	113
Investments in affiliated companies	-	-	-	-	21	21
Buildings and equipment	-	-	-	-	195	195
Other assets	53	3	-	-	11	67
Total assets	**9,810**	**141**	**139**	**2**	**340**	**10,432**
Liabilities						
Credit from banking corporations	5	-	6	2	-	13
Creditors in respect of credit-card activity**	8,995	53	112	-	1	9,161
Other liabilities**	425	-	(19)	-	4	410
Total liabilities	**9,425**	**53**	**99**	**2**	**5**	**9,584**
Difference	385	88	40	-	335	848
Effect of hedging derivative instruments:						
Derivative instruments (excluding options)	21	-	(21)	-	-	-

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Including foreign-currency linked.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2008					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	5,772	1,922	1,880	411	80	2
Liabilities	4,916	2,211	1,882	310	59	2
Difference	856	(289)	(2)	101	21	-
CPI-linked Israeli currency						
Assets	29	12	11	152	1	2
Liabilities	24	12	11	2	*-	-
Difference	5	-	-	150	1	2
Foreign currency (3)						
Assets	62	17	23	2	*-	-
Liabilities	39	14	4	2	1	-
Difference	23	3	19	-	*-	-
Non-monetary items						
Assets						
Liabilities						
Difference						

(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 16, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 10 million.

* Amount lower than NIS 0.5 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]	
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total
-	-	-	-	10,067	31	10,082
2	6	4	3	9,395	196	9,680
(2)	(6)	(4)	(3)	672	(165)	402
8	-	-	-	215	-	215
-	-	-	-	49	*-	49
8	-	-	-	166	*-	166
-	-	-	-	104	*-	104
-	-	-	-	60	14	74
-	-	-	-	44	(14)	30
					328	328
					7	7
					321	321

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2008					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	5,863	1,951	1,914	565	81	4
Liabilities	4,979	2,237	1,897	314	60	2
Difference	884	(286)	17	251	21	2

(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 16, "Assets and Liabilities by Linkage Base."

(3) Including assets whose maturity date has elapsed in the amount of NIS 10 million.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]	
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total
8	-	-	-	10,386	359	10,729
2	6	4	3	9,504	217	9,805
6	(6)	(4)	(3)	882	142	924

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2007					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets**	5,787	1,855	1,798	313	52	-
Liabilities**	4,842	2,140	1,776	288	53	1
Difference	945	(285)	22	25	(1)	(1)
CPI-linked Israeli currency						
Assets**	28	13	90	8	1	-
Liabilities**	25	13	11	2	*-	-
Difference	3	-	79	6	1	-
Foreign currency (3)						
Assets**	100	20	19	3	-	-
Liabilities**	61	22	11	(7)	*-	-
Difference	39	(2)	8	10	*-	-
Non-monetary items						
Assets						
Liabilities						
Difference						

(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 16, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency-linked.

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

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance(2)	
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(4)	Total
-	-	-	-	9,805	17	9,810
*-	9	-	-	9,109	228	9,429
*-	(9)	-	-	696	(211)	381
3	-	-	-	143	-	141
-	-	-	-	51	-	53
3	-	-	-	92	-	88
-	-	-	-	142	-	141
-	-	-	-	87	12	101
-	-	-	-	55	(12)	40
					340	340
					5	5
					335	335

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2007					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	5,915	1,888	1,907	324	53	-
Liabilities	4,928	2,175	1,798	283	53	1
Difference	987	(287)	109	41	-	(1)

(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 16, "Assets and Liabilities by Linkage Base."

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

Note 17 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

					Balance-sheet balance[2]	
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[3]	Total
-	-	-	-	10,090	357	10,432
-	9	-	-	9,247	245	9,584
-	(9)	-	-	843	112	848

Note 18 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	December 31	
	2008	2007
Unutilized credit-card credit lines:		
Credit risk on the Company	1,082	741
Credit risk on a consolidated company	1,156	992
Credit risk on banks	31,862	29,619

Credit lines for current transactions for holders of bank credit cards are provided by banks that are members of the Isracard Arrangement (see also Note 18G below), and are the responsibility of each banking corporation that has provided its customer such a credit line.

	December 31	
	2008	2007
Other liabilities:		
Exposure in respect of check guarantees	13	-

B. Activity in Derivative Instruments – Volume and Maturity Dates

On December 12, 2007, the Company entered into four forward exchange transactions, as follows:

1. A total of USD 563,536, maturing December 1, 2008, at an exchange rate of 3.959.
2. A total of USD 2,020,240, maturing December 31, 2008, at an exchange rate of 3.9633.
3. A total of USD 563,536, maturing December 1, 2009, at an exchange rate of 4.025.
4. A total of USD 2,176,800, maturing December 12, 2009, at an exchange rate of 4.0305.

All of the transactions whose maturity dates have not yet arrived are stated in the balance sheet at a negative gross fair value in the amount of NIS 1 million, similar to the preceding year.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues and Recommendations for Additional Regulation

1. In May 2005, the Antitrust Commissioner (the "**Commissioner**") declared the Company a holder of a monopoly in acquiring Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal with the court against the declaration. In any case, there is an agreement with the Commissioner according to which the Commissioner's aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below.

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

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

   (B) A directive instructing the Company to sign a domestic agreement regularizing the interaction between acquirers and issuers for the purposes of acquiring in Israel of the aforesaid cards, under temporary interchange-fee terms (the fee paid by acquirers of credit-card transactions to the credit-card issuers), as approved by the Antitrust Tribunal for other acquirers, and a permanent interchange fee, to be approved, for the acquiring of the aforesaid cards, and for acquiring by the Company of Visa cards issued by the other acquirers (the "**Domestic Agreement**").

   (C) A directive instructing the Company to implement a common technical interface for the execution of local acquiring.

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

   Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner's declaration of monopoly will be cancelled subject to the fulfillment of the "arrangement" described below, and consequently no directives will be issued.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

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

Following talks held between the Company, Aminit Ltd., which receives operational services from the Company, and the credit-card companies Leumi Card Ltd. and CAL (the four companies jointly: the "Credit-Card Companies"), and 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 binding 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 in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. 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, 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.

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

Note 18 – Contingent Liabilities and Special Agreements (cont.)

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

In November 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.

The Company signed the Domestic Agreement in May 2007.

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.

Following the recommendations of the Interministerial Committee for the Examination of Market Failures in the Credit-Card Industry, a private bill based on the committee's recommendations was submitted to Knesset in March 2007 (the "Private Bill"), and the Ministry of Finance issued a legislative memorandum (the "Memorandum") in April 2008, both of which sought to amend the Banking Law (Licensing), 5741-1981. The Private Bill was passed in a preliminary reading in Knesset in June 2008.

The Private Bill and the Memorandum are not identical in scope and details, but both or either essentially propose, among other matters, the imposition of a licensing requirement by the Governor of the Bank of Israel on those wishing to engage in credit-card acquiring, and the authorization of the Supervisor of Banks to determine that an acquirer of a certain percentage of transactions in charge cards (10% in the Private Bill and 20% in the Memorandum) is a "large acquirer," and that an issuer of a certain percentage of charge cards (5% in the Private Bill and 10% in the Memorandum) is a "large issuer." These declarations by the Supervisor will enable him, where he believes it is necessary in order to ensure competition in the area of acquiring charge cards or in order to protect the best interests of customers or of suppliers, to instruct a large issuer to allow all those acquiring charge cards to acquire transactions in its cards, and to instruct large acquirers of transactions in charge cards to acquire cards issued by others. The Memorandum also proposes considering the interchange fee as a fee under the Banking Law (Customer Service), 5741-1981. The bill suggests authorizing the Supervisor to submit a proposal for the establishment of a maximum interchange fee to a "price committee" and to "ministers," pursuant to the Supervision of Prices of Products and Services Law, 5756-1996. It is further proposed that the Supervisor of Banks should be granted authority aimed at assisting in making the determinations described above.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

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

The Company estimates that the possible materialization of any of the following factors: large-scale acquiring of transactions in MasterCard cards by additional acquirers other than the Company; implementation of the Arrangement and its terms, including reduction of the interchange fee or equalization of acquiring fees in Isracard cards to those of MasterCard cards; the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof; or legislation in accordance with the Private Bill or the Memorandum, the subsequent declaration of the Company as a "large issuer," and accordingly the activity of existing or new competitors in the credit-card market, including in brands owned and operated by the Company, may influence the Company's course of action and may have a material adverse effect on the Company's financial results in the future; however, the Company cannot estimate the extent of such an effect.

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

3. Prevention of Money Laundering and Terrorism Financing

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

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

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

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

   The training system has been expanded and improved.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

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

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

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

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.

   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 these rules, 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.

D. Legal Proceedings

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 11.2 million. Based on the opinion of its legal advisors, the Company estimates that the probability of acceptance of the claimants' arguments is low; therefore, no provision was made in respect of these claims.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings (cont.)

2. In June 2008, a claim was filed with the District Court of Tel Aviv against the Company, along with a petition to certify the claim as a class action. The claim was presented to the Company in July 2008. The amount of the class-action suit stated in the claim statement is NIS 15 billion. The claim and the petition for class-action status, which are presented in an unclear manner and using inappropriate language, describe a sequence of events beginning with charges performed in 1999. To the best of the understanding of the Company, the claimant alleges that about nine years ago, the account of his wife at the time was debited with charges which, according to him, should not have been accepted by the Company. According to the claimant, the sales slips were falsified by a particular merchant, and the Company should have cancelled the false charge. The District Court ordered the claimant to resubmit his petition, due to an inability to understand the court documents filed on his behalf, by November 2008. After that date, the Company filed a motion to strike the petition in limine. The court ruled that this motion would be discussed in pretrial proceedings. In December 2008, the documents "corrected" by the claimant were provided, with the amount of the claim increased to NIS 18 billion. The Company moved for these documents to be removed from the court file. On March 8, 2009, a ruling was handed down according to which the petition to certify the class action was expunged.

3. In October 2008, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv against the Company. The amount of the personal claim stated in the claim statement is NIS 87.478, and the amount of the class-action suit "cannot be estimated at this stage," according to the claimants. Claimant No. 1 (the "**Claimant**"), who is the holder of a credit card issued by the Company, alleges that when he sought to pay his National Insurance fees at the Postal Bank, he was obliged to make the payment via a "Credit" transaction, which entails taking a loan from the Company. According to the Claimant, by this action the Company violated the prohibition established in the Banking Law (Customer Service) on making a service contingent upon another service. The Claimant (and another claimant who holds a credit card issued by Leumi Card) seek to represent holders of credit cards issued by the Company who "borrowed money from the respondents because the respondents required them to do so as a condition of making a particular payment by credit card." The remedy requested is to allow customers who were not interested in such a loan to cancel the loan contract, while refunding any payments made to the Company in respect of this contract, including the interest and fee paid to the Company. The Company filed its response to the petition in January 2009, in which it stated that this was not a case of making a service contingent upon another service. The case was scheduled for a preliminary hearing in March 2009. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class-action suit and with regard to the substance of the claim, and the probability that the claim will be certified as a class action is therefore remote.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings (cont.)

4. In November 2008, a claim was filed with the District Court of Tel Aviv against the Company and against Europay, along with a petition to certify the claim as a class action. The amount of the personal claim stated in the claim statement in NIS 82, and the amount of the class-action suit is NIS 16 million. The petition for class-action status mainly concerns the allegation that the "triple" conversion method applied by the respondents in transactions executed by Israelis in most European countries, in respect of which they were debited in NIS, constitutes a violation of the agreement with the credit-card holders. The relevant period is from December 1, 2001 to March 31, 2005. A petition for class-action status has already been filed on this matter, and was dismissed by the Supreme Court. The new petition is based on the fact that the enactment of the Class Actions Law has changed the situation, and allows claims to be filed under new causes. In the opinion of the Company, based on the opinion of its legal advisors, the Company has strong arguments both with regard to the petition to certify the class action and with regard to the substance of the claim. At this stage, it is not possible to estimate the probability of certification of the claim as a class action, or the chances of the claim itself.

E. Indemnification of Directors

The Company has undertaken a commitment to indemnify directors of the Company.

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

F. Agreements with Sister Companies

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

The Company operates the Sister Companies' credit-card issuance and acquiring activity, as well as the acquiring of transactions executed in Israel using cards issued abroad. The Sister Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

G. Contractual Engagements with Banking Corporations

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

   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 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 aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

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

   The Bank Hapoalim Agreement was approved by the authorized organs of the aforesaid companies, and took effect in December 2008, pursuant and subject to its provisions. See also Note 32 below.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

G. Contractual Engagements with Banking Corporations (cont.)

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

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

Note 19 – 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 raised similar credit close to the balance-sheet date.

Note 19 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

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	914	17	931	932	1,146	163	1,309	1,308
Debtors in respect of credit-card activity*	6,868	2,391	9,259	9,196	6,623	2,107	8,730	8,674
Securities(3)	151	61	212	212	1	112	113	113
Other financial assets	30	3	33	32	29	*3	32	*31
Total financial assets	**7,963**	**2,472**	**10,435**	**10,372**	**7,799**	**2,385**	**10,184**	**10,126**
Financial liabilities:								
Credit from banking corporations	6	-	6	6	13	-	13	13
Creditors in respect of credit-card activity*	7,121	2,291	9,412	9,266	6,931	2,230	9,161	9,001
Other financial liabilities*	129	216	345	341	129	259	388	379
Total financial liabilities	**7,256**	**2,507**	**9,763**	**9,613**	**7,073**	**2,489**	**9,562**	**9,393**

(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.

(3) Includes shares that have no available fair value, stated at cost, in the amount of NIS 61 million (2007: NIS 112 million).

* Reclassified.

Note 20 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2008					
	Interested parties		Related parties			
	Controlling shareholders		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets						
Cash on hand and deposits with banks	929	1,205	-	-	-	-
Debtors in respect of credit-card activity[(1)]	*-	*-	-	-	1	1
Securities	-	-	-	-	11	11
Investments	-	-	13	13	-	-
Other assets	*-	6	*-	*-	28	37
Liabilities						
Credit from banking corporations	6	21	-	-	-	-
Creditors in respect of credit-card activity	58	86	334	354	97	102
Other liabilities	1	3	-	-	185	220
Shares (included in shareholders' equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	8,408	8,520	-	-	-	-
Guarantees given by banks	4,885	5,385	-	-	-	1,077

(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.

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2007					
	Interested parties		Related parties			
	Controlling shareholders		Affiliated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets						
Cash on hand and deposits with banks	782	1,811	-	-	-	-
Debtors in respect of credit-card activity(1)	*-	*-	-	-	**1	**1
Securities	-	-	-	-	11	11
Investments	-	-	13	13	-	-
Other assets	6	7	*-	*-	21	43
Liabilities						
Credit from banking corporations	11	49	-	-	-	-
Creditors in respect of credit-card activity	51	61	332	379	112	129
Other liabilities	1	6	-	-	216	264
Shares (included in shareholders' equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	8,472	8,472	-	-	1,452	1,452
Guarantees given by banks	4,882	5,109	-	-	1,071	1,107

(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.

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2008		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	5	-	2
Profit (loss) from financing activity before provision for doubtful debts	19	-	(9)
Other income	4	-	17
Operating expenses	-	-	-
General and administrative expenses	-	(2)	-
Payments to banks[(1)]	(257)	-	(21)
Total	**(229)**	**(2)**	**(11)**

	For the year ended December 31, 2007		
	Interested parties		Related parties
	Controlling shareholders	Directors and CEOs	Others
Income from credit-card transactions	24	-	*-
Profit (loss) from financing activity before provision for doubtful debts	33	-	(9)
Other income	4	-	11
Operating expenses	-	-	-
General and administrative expenses	-	(5)	-
Payments to banks[(1)]	(260)	-	(46)
Total	**(199)**	**(5)**	**(44)**

(1) See Note 18G to the Financial Statements.

* Amount lower than NIS 0.5 million.

Note 20 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

C. Benefits to Interested Parties (From the Credit-Card Company)

	For the year ended December 31, 2008							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	2	7	-	-

	For the year ended December 31, 2007							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	5	8	-	-

D. Additional Details

- See Note 7 – Purchase of shares from Europay (Eurocard) Israel Ltd. (a sister company).
- See Note 15 – Employee rights.
- See Note 18 – Contingent liabilities and special agreements.

Note 21 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
Income from merchants:			
Merchant fees	904	*873	823
Other income	10	9	10
Total gross income from merchants	**914**	**882**	**833**
Income in respect of credit-card holders:			
Issuer fees	65	*39	28
Service fees	132	*100	*95
Fees from transactions abroad	22	21	20
Other income	13	*34	*31
Total income in respect of credit-card holders	**232**	**194**	**174**
Total income from credit-card transactions	**1,146**	**1,076**	**1,007**

* Reclassified.

Note 22 – Profit from Financing Activity before Provision for Doubtful Debts

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
A. Financing income in respect of assets:			
From credit to cardholders	27	17	7
From credit to merchants	14	3	2
From deposits with banks	26	43	49
From other assets	10	1	1
Total in respect of assets	**77**	**64**	**59**
B. Financing expenses in respect of liabilities:			
To banking corporations	5	5	4
On other liabilities	9	11	10
Total in respect of liabilities	**14**	**16**	**14**
C. In respect of derivative instruments and hedging activity:			
Non-effective share of hedging ratio	*-	*-	*-
Total in respect of derivative instruments and hedging activity	***-**	***-**	***-**
C. Other:			
Other financing income	11	9	8
Total profit from financing activity before provision for doubtful debts [(1)]	**74**	**57**	**53**
(1) Of which: exchange-rate differences, net	10	10	8

Note 23 – Other Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
From rental of assets	4	5	5
Operating fees from related parties	15	11	9
Profit from sales of shares	26	-	-
Others	3	2	2
Total other income	**48**	**18**	**16**

Note 24 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
Wages and incidentals	124	113	*105
Data processing and computer maintenance	22	*22	*17
Automatic Bank Services (ABS)	16	15	16
Operating fees to MasterCard International	30	24	22
Fees to other issuers	54	43	37
Amortization and depreciation	42	26	*23
Communications	6	6	4
Production and delivery	77	70	68
Damages from abuse of credit cards	7	7	7
Rent and building maintenance	21	17	14
Others	9	*13	15
Total operating expenses	**408**	**356**	**328**

* Reclassified.

Note 25 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	2007	2006
Wages and incidentals	40	35	28
Advertising	54	57	62
Customer retention and recruitment	8	11	7
Gift campaigns for credit-card holders	35	32	34
Travel insurance for credit-card holders	*-	*-	5
Vehicle maintenance	5	4	3
Others	3	3	3
Total sales and marketing expenses	**145**	**142**	**142**

* Amount lower than NIS 0.5 million.

Note 26 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	2007	2006
Wages and incidentals	15	16	*19
Professional services	10	8	5
Insurance	5	7	8
Benefit due to share allocation	4	*1	-
Others	17	*12	9
Total general and administrative expenses	**51**	**44**	**41**

* Reclassified.

Note 27 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition:

	For the year ended December 31		
	2008	**2007**	**2006**
Current taxes for the tax year	70	57	54
Deferred taxes for the tax year	(6)	(4)	1
Provision for taxes on income	**64**	**53**	**55**

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

	For the year ended December 31		
	2008	**2007**	**2006**
Tax rate applicable to the Company in Israel	27%	29%	31%
Tax amount based on statutory rate	64	57	54
Tax increment (saving) in respect of:			
Unrecognized expenses	1	1	1
Deferred tax income due to changes in tax rates	(1)	*-	*-
Effect of Adjustment for Inflation Law, 5745-1985	-	(5)	*-
Provision for taxes on income	**64**	**53**	**55**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2003, including tax assessments considered to be final under the Income Tax Ordinance.

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

Note 27 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred Tax Balances and Provision for Deferred Taxes:

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2008	2007	2008	2007
From specific provision for doubtful debts	11	8	-	-
From provision for vacations and bonuses	2	2	-	-
From surplus of provision for compensation and pensions over the amount funded	9	3	-	-
From adjustment of depreciable non-monetary assets	-	-	5	4
Adjustment of securities and derivatives	(1)	-	-	-
Total	**21**	**13**	**5**	**4**

5. Reduction in Tax Rates

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

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

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

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

6. Rescission of the Adjustments for Inflation Law

On February 26, 2008, the Knesset approved changes to the Income Tax Law (Adjustments for Inflation), 5745-1985, as a result of the decrease in inflation rates in Israel in recent years. The aforesaid law essentially states that the effects of changes in the consumer price index as of January 1, 2008 shall not be included in the calculation of taxable income for income-tax purposes.

Note 28 – Operating Segments

A. General

The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with its sister company Europay (Eurocard) Israel Ltd. ("**Europay**"), which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license from MasterCard International Incorporated ("MCI").

The Issuance Segment

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

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

The main income items associated with this segment are interchange fees, card fees, deferred-debit fees, and fees from transactions abroad.

Interchange fees are fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer.

The main expenses associated with this segment are marketing, advertising, and management of customer clubs; loyalty programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Acquiring Segment

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various financial services, such as loans, advance payments, sales-slip discounting, and marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

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

Note 28 – Operating Segments (cont.)

The main income items in this segment are fees from merchants, net of interchange fees which are allocated to the Issuance Segment, and net financing income.

The main expenses associated with the Acquiring Segment are recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance Segment and/or the Acquiring Segment, each of which does not constitute a reportable segment. In addition, one-time income from the sale of shares of MC (see Note 7) is included in this segment.

Note 28 – Operating Segments (cont.)

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2008			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other[(1)]**	**Total**
Operating and other income:				
Fees from externals	232	914	48	1,194
Inter-segmental fees	730	(730)	-	-
Total	**962**	**184**	**48**	**1,194**
Profit from financing activity before provision for doubtful debts	43	29	2	74
Total income	**1,005**	**213**	**50**	**1,268**
Expenses				
Provision for doubtful debts	9	2	-	11
Operating expenses	266	135	7	408
Sales and marketing expenses	109	31	5	145
General and administrative expenses	36	14	1	51
Payments to banks	398	18	-	416
Total expenses	**818**	**200**	**13**	**1,031**
Operating profit before taxes	**187**	**13**	**37**	**237**
Provision for taxes on operating profit	50	4	10	64
Operating profit after taxes	**137**	**9**	**27**	**173**
The Company's share in profits of affiliated companies	-	-	-	*-
Net profit	**137**	**9**	**27**	**173**
Return on equity (percent net profit out of average capital)	16.0	1.0	3.2	20.2
Average balance of assets	9,029	1,478	202	10,708
Of which: investments in affiliated companies	-	-	21	21
Average balance of liabilities	344	9,465	47	9,856
Average balance of risk-adjusted assets	2,202	803	178	3,183

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding asset 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.

* Amount lower than NIS 0.5 million.

Note 28 – Operating Segments (cont.)

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2007			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Operating and other income:				
Fees from externals	194	883	17	1,094
Inter-segmental fees	700	(700)	-	-
Total	**894**	**183**	**17**	**1,094**
Profit from financing activity before provision for doubtful debts	32	23	2	57
Total income	**926**	**206**	**19**	**1,151**
Expenses				
Provision for doubtful debts	6	*-	-	6
Operating expenses	234	117	5	356
Sales and marketing expenses	111	31	-	142
General and administrative expenses	28	15	1	44
Payments to banks	378	30	-	408
Total expenses	**757**	**193**	**6**	**956**
Operating profit before taxes	**169**	**13**	**13**	**195**
Provision for taxes on operating profit	45	4	4	53
Operating profit after taxes	**124**	**9**	**9**	**142**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**124**	**9**	**9**	**142**
Return on equity (percent net profit out of average capital)	16.0	1.2	1.2	18.4
Average balance of assets	8,521	1,301	152	9,974
Of which: investments in affiliated companies	-	-	17	17
Average balance of liabilities	207	8,956	35	9,198
Average balance of risk-adjusted assets	2,162	364	134	2,660

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding asset 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.

* Amount lower than NIS 0.5 million.

Note 28 – Operating Segments (cont.)

Quantitative Data on Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2006			
Profit and loss information:	**Issuance Segment**	**Acquiring Segment**	**Other(1)**	**Total**
Operating and other income:				
Fees from externals	174	836	13	1,023
Inter-segmental fees	640	(640)	-	-
Total	**814**	**196**	**13**	**1,023**
Profit from financing activity before provision for doubtful debts	29	21	3	53
Total income	**843**	**217**	**16**	**1,076**
Expenses				
Provision for doubtful debts	4	-	-	4
Operating expenses	203	121	4	**328
Sales and marketing expenses	118	24	-	142
General and administrative expenses	27	14	-	**41
Payments to banks	342	44	-	386
Total expenses	**694**	**203**	**4**	**901**
Operating profit before taxes	**149**	**14**	**12**	**175**
Provision for taxes on operating profit	47	4	4	55
Operating profit after taxes	**102**	**10**	**8**	**120**
The Company's share in profits of affiliated companies	-	-	*-	*-
Net profit	**102**	**10**	**8**	**120**
Return on equity (percent net profit out of average capital)	15.8	1.6	1.2	18.6

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding asset 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.

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 29 – Material Events

1. On March 9, 2007, a memorandum of understanding was signed between Bank Hapoalim and The Phoenix Holdings Ltd. ("**The Phoenix**"), under which The Phoenix would acquire 25% of the total issued share capital of the Company and of Europay from Bank Hapoalim. After it became apparent to Bank Hapoalim that the transaction, as signed, was unfeasible, due to causes including the time elapsed since the memorandum of understanding was signed, difficulties in implementation of the suspending conditions, and the reservations of the Antitrust Commissioner regarding the structure of the transaction, Bank Hapoalim addressed a request to The Phoenix to cancel the memorandum of understanding, and The Phoenix decided to accede to this request. A document canceling the memorandum of understanding was signed by Bank Hapoalim and The Phoenix in June 2008.

2. To the best of the Company's knowledge, Bank Hapoalim is considering a public offering of shares of the Company and/or the introduction of a partner and/or the sale of part of its stake in the Company. At this stage, a final decision regarding the aforesaid offering has not yet been reached.

3. Further to a document of principles of November 2007 between the Company and Global Factoring Ltd. ("**Global**"), a private company in the field of factoring, and its shareholders, according to which 51% of the issued capital of Global (post-allocation) would be allocated to Isracard, a final agreement between the parties was signed in April 2008.

   As of the date of the report, not all of the approvals have been received.

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

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

Note 29 – Material Events (cont.)

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

5. **Contractual engagement with the Life-style club** – In December 2008, the Company, Super-Pharm (Israel) Ltd. ("**Super-Pharm**"), and Alonyal Ltd. ("**Alonyal**") entered into a shareholders' agreement to establish the company Life-Style Customer Loyalty Club Ltd. (the "**Life-Style Company**"); the complete existing operations of the Life-Style club will be assigned to this company. The company Life-Style Financing Ltd. (the "**Financing Company**") was also established.

   The Life-Style Company and the Financing Company are held as follows: Super-Pharm – approximately 81%; the Company – 15%; Alonyal – approximately 4%. The aforesaid agreement establishes arrangements among the parties with regard to their ownership of the Life-Style Company and the Financing Company. In addition, as part of the agreements among the parties, a contractual engagement was formed between the Company and the Life-Style Company for the issuance and operation of new Life-Style club cards. The term of the aforesaid agreement is 6.5 years from its inception date, which may be extended pursuant to its terms. The aforesaid agreement includes, among other matters, arrangements for payment and account settlement among the parties, the issuance process of the new cards, operational matters, benefits and rights of club members, and marketing.

5. The Company holds 19% of the issued share capital of Tzameret Mimunim Ltd. ("**Tzameret Mimunim**") (the remaining 81% of the shares of Tzameret Mimunim are held by Bank Hapoalim), an affiliated company of the Company, engaged in discounting of credit-card sales slips. The Company is preparing to sell its full holdings in Tzameret Mimunim to Bank Hapoalim. The aforesaid sale has been approved by the authorized organs of the Company and of Bank Hapoalim.

6. The Company is preparing to acquire, from Bank Hapoalim, its full holdings in Europay, constituting 98.2% of the issued share capital of Europay. The remaining 1.8% of the issued share capital of Europay is held by Mizrahi-Tefahot Bank Ltd. ("**Mizrahi Bank**"). The aforesaid acquisition has been approved by most of the relevant organs.

Note 30 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2008	**2007**
Total assets	10,693	10,400
Total liabilities	9,788	9,572
Shareholders' equity	905	828
Nominal net profit	173	142

Note 31 – Condensed Balance Sheets and Statements of Profit and Loss

Reported amounts

In NIS millions

A. Balance Sheet of the Company

	December 31	
	2008	**2007**
Assets		
Cash on hand and deposits with banks	921	1,301
Debtors in respect of credit-card activity	8,746	*8,424
Securities	212	113
Investments in investee companies	109	111
Buildings and equipment	133	102
Other assets	591	369
Total assets	**10,712**	**10,420**
Liabilities		
Credit from banking corporations	5	11
Creditors in respect of credit-card activity	9,412	*9,161
Other liabilities	371	*400
Total liabilities	**9,788**	**9,572**
Shareholders' equity	924	848
Total liabilities and capital	**10,712**	**10,420**

* Reclassified.

Note 31 – Condensed Balance Sheets and Statements of Profit and Loss (cont.)

Reported amounts

In NIS millions

B. Statements of Profit and Loss of the Company

	For the year ended December 31		
	2008	**2007**	**2006**
Income			
From credit-card transactions	1,146	**1,076	1,008
Profit from financing activity before provision for doubtful debts	54	**48	50
Others	44	**14	11
Total income	**1,244**	**1,138**	**1,069**
Expenses			
Provision for doubtful debts	*-	*-	3
Operating expenses	407	359	**328
Sales and marketing expenses	143	142	142
General and administrative expenses	50	44	**41
Payments to banks	416	408	386
Total expenses	**1,016**	**953**	**900**
Operating profit before taxes	**228**	**185**	**169**
Provision for taxes on operating profit	61	50	53
Operating profit after taxes	**167**	**135**	**116**
The Company's share in operating profits of investee companies after tax effect	6	7	4
Net profit	**173**	**142**	**120**

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 32 – Pro-Forma Data

Contractual engagement with Bank Hapoalim – In February 2008, the Company and Europay entered into a new agreement with Bank Hapoalim with regard to the issuance of cards, which replaces the previous contractual engagements between the parties on this matter (the "**Bank Hapoalim Agreement**"). The Bank Hapoalim Agreement was approved by the authorized organs of the aforesaid companies, and took effect in December 2008, pursuant and subject to its provisions.

The following are pro-forma data under the assumption that the new contractual engagement was reflected in the financial statements for preceding periods (on a consolidated basis). The calculations are based on actual data for 2006-2008. Data for 2008 were calculated under the assumption that the contractual engagement was reflected throughout the entire year.

Reported amounts

In NIS millions

	For the year ended December 31		
	2008	**2007**	**2006**
Pro-forma data:			
Income from credit-card transactions	1,145	1,057	988
Other income	44	14	13
Operating expenses	411	360	332
Payments to banks	391	359	338
Provision for taxes	68	59	62
Net profit	**185**	**157**	**135**
Profit per common share (in NIS)	**252**	**218**	**188**
Profit balance	**966**	**878**	**719**
Actual data:			
Income from credit-card transactions	1,146	1,076	1,007
Other income	48	18	16
Operating expenses	408	356	328
Payments to banks	416	408	386
Provision for taxes	64	53	55
Net profit	173	142	120
Profit per common share (in NIS)	**235**	**197**	**167**
Profit balance	**924**	**848**	**704**