Poalim Express Ltd.

Annual Report

For the year ended December 31, 2015

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Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the management, I am proud to submit to you the Annual Financial Report of Poalim Express Ltd. (hereinafter: "**the Company**") for 2015.

The Company ended 2015 with a profit of NIS 40 million, compared with a profit of NIS 45 million in 2014. The capital ratio increased in 2015 and stands at 16.1%.

The Company, which services a wide range and a variety of customers, and has service meetings with individual and corporate customers in the various channels, continues to position the service to its customers as a central target providing an optimal solution to the customer's requirements. This year, we expanded and intensified the options available to our customers to obtain service and execute transactions to a range of digital channels, all this, while maintaining the excellence of its operating and procedural service. We recently launched the new American Express website and application, enabling the receipt of information and execution of transactions in a more convenient and accessible manner.

This year, in which the "American Express" brand entered its 21st year of activity in Israel, we continued to advance it, and we have already achieved the 650,000 customers mark. Pursuant to this, we continued to invest in enrolling new customers and intensifying the relationship with existing customers. We took steps to develop new growth engines, while placing an emphasis on reinforcing our technological infrastructures for innovation and creativity. We continued to offer our customers unique experiences, including the Amex Concert Arena – in which thousands of customers enjoyed exclusive entertainment and shows by leading artists from Israel and around the world, and the "Round Tables by American Express" project – a unique and exceptional project in the culinary field, in which our customers enjoyed a one-time culinary event bringing together some of the best chefs from Israel and some of the most talked about chefs from around the world from the highest-ranking restaurants.

With the intensification of the competitive arena in the payments market in Israel, which places the Company in direct competition with long-standing and new players from the financial arena and from other new arenas, management this year took steps to maintain the Company's growth engines, under variable market conditions and increasing competition in the Company's various operating segments.

With the end of 2015, we look to the future and to the continuation of fruitful business activity. However, because of the changes in the regulatory competitive and technological environment, we adjusted the Company's multi-year strategic program. The program is based on a thorough analysis of the economic, regulatory, and business environment, and supported by the Company's performance ability, led by the management. The program combines placing the customer at the center, with a regulated outlook of developments in the payments industry around the world and in Israel and it is focused on continuing the Company's positioning as a leader in the payments industry, the development and improvement of new growth engines, excellence and product and process innovation, all this in combination with qualitative risk management and advanced technological infrastructures.

2015 ended with significant regulatory and legal uncertainty with the publication of the interim conclusions of the Committee to Increase Competitiveness in Banking Services ("the Strum Committee"). Application of the committee's recommendations places challenges and significant issues, some of which have a material impact on the structure of the market and the companies operating therein. The Company is examining the committee's recommendations and its implications for the Company's activity.

Beyond business excellence, the Company sees the involvement and giving to the community as a central value and it is taking steps to nurture and encourage this important value. In this context, the Company expanded its activity of involvement in the community and volunteering of the employees and their families. The Company encourages its employees for volunteering activity, from a belief that thus, the feeling of belonging and satisfaction of the employees with the Company is strengthened.

At this opportunity, I would like to thank our customers who continue to express confidence in us, the members of the Board of Directors, the management, and of course, the Company's employees for their hard work and devotion, which enables the Company to continue to lead and develop.

Sincerely,

Dan Koller,

Chairman of the Board of Directors

Tel Aviv, February 25, 2016

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General Review, Targets and Strategy

Summary Description of the Company and Main Areas of Operation

Poalim Express Ltd. ("**the Company**") was established and incorporated in Israel in 1995 as a private company. The Company is owned by Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**").

The Company is a credit-card company and an "auxiliary corporation" according to the definition of this term in the Banking Law (Licensing), 1981 (hereinafter: "**Auxiliary Corporation**"). The Company has no subsidiaries or other investee companies.

The Company issues and clears American Express credit cards issued for use in Israel and abroad under a license granted to the Company by American Express Ltd. (hereinafter: "**the American Express Organization**"). The agreement with the worldwide American Express Organization concerning the issuance and clearing of American Express credit cards was renewed in April 2010. This agreement is in effect for a period of further seven years.

The Company's operations are conducted through two operating segments: the Issuance Segment, which handles cardholders; and the Clearing Segment, which handles merchants.

Contractual engagement between the Company and Isracard Ltd. – Under an agreement between the Company and Isracard Ltd. (hereinafter: "**Isracard**"), a fellow subsidiary, Isracard administers and operates, on behalf of the Company, issuance and clearing activity in Israel of transactions executed with merchants using American Express cards (hereinafter: "**the Arrangement**"). The Company participates in all costs common to Isracard and the Company, according to its relative share of the relevant activity. In return for Isracard's activity in the operation of the Arrangement, the Company pays Isracard a fee and other payments, as agreed between the parties.

The Company is part of the Isracard Group, which also includes the Isracard and Europay (Eurocard) Israel Ltd. (hereinafter: "**Europay**").

Forward-Looking Information

Some of the information set forth in these reports, which does not relate to historical facts (even if it based on the processing of historical facts), constitutes forward-looking information, as defined in the Securities Law. Actual results may be materially different from the assessments and estimates included in the context of forward-looking information, as a result of a number of regulatory factors, including, inter alia, as a result of changes in capital markets in Israel and in the world, macro-economic changes, geopolitical changes, regulatory changes, accounting changes and changes in taxation rules, as well as other changes which are not under the Company's control, and which could cause a failure to realize the assessments and/or to changes in the Company's business plans. Forward-looking information is characterized by words or phrases, such as "forecast", "plan", "target", "estimate of risk", "scenario", "stress scenario", "risk assessment", "correlation", "distribution", "we believe", "expected", "predicted", "assess", "intend", "likely", "liable to change", "necessary", can", "will be", and similar expressions. These forward-looking information and expressions are subject to risks and uncertainty, as they are based on estimates of the management with regard to future events, which include, inter alia, changes in the following parameters: the state of the economy, the tastes of the public, rates of interest in Israel and overseas, rates of inflation, new legislative provisions and regulations in the area of banking and the capital market., exposure to financial risks, the financial robustness of borrowers, the behavior of competitors, aspects related to the Company's image, technological developments and the area of manpower, as well as other areas which have an impact on the Company's activities and upon the environment in which it operates, and which, in the nature of things, their realization is uncertain, The information presented below relies, inter alia, on the information known to the Company and which is based, inter alia, on the publication of various entities, including: the Central Statistical Bureau, the Ministry of Finance, data from the Bank of Israel, and other entities which publish data and assessments regarding capital markets in Israel and around the world.

This information reflects the Company's current point of view relating to future events. This viewpoint is based on assessments, and consequently, is subject to risks, uncertainty and even the possibility that the events or developments which have been predicted as expected, will not materialize at all, or will materialize in part only, and even that the actual developments will be the reverse of those which have been expected.

Principal Condensed Financial Information

Details on the main developments and changes which occurred in 2015 are as follows:

Net profit of the Company in 2015 amounted to NIS 40 million, compared with NIS 45 million in the corresponding period last year, a decrease of 11.1%.

Net return on average equity in 2015 amounted to 12.9%, compared with 16.7% in 2014.

Total assets of the Company at December 31, 2015 amounted to NIS 2,865 million, compared with NIS 2,417 million at the end of 2014.

The balance of debtors in respect of credit card activity, net at December 31, 2015 amounted to NIS 2,301 million, compared with NIS 1,951 million at the end of 2014.

Total capital at December 31, 2015 amounted to NIS 332 million, compared with NIS 292 million at the end of 2014.

The ratio of total capital to risk elements at December 31, 2015 amounted to 16.1%, compared to 15.7% at the end of 2014.

Table 1 - Consolidated Statements of Profit and Loss – Multi-Period Information
Reported amounts
In millions of NIS

	Year ended December 31, 2015				
	2015	**2014**	**2013**	**2012**	**2011**
Income					
From credit card transactions	368	332	317	292	256
Interest income, net	1	3	5	7	7
Other income (expenses)	(2)	3	1	1	- *
Total income	**367**	**338**	**323**	**300**	**263**
Expenses					
In respect of credit losses	6	1	1	6	4
Operating	120	97	94	91	82
Selling and marketing	76	69	62	54	48
General and administrative	30	28	27	25	22
Payments to banks	80	82	82	73	63
Total expenses	**312**	**277**	**266**	**249**	**219**
Profit before taxes	**55**	**61**	**57**	**51**	**44**
Provision for taxes on profit	15	16	14	13	9
Net profit for the year	**40**	**45**	**43**	**38**	**35**
Principal financial ratios					
Expenses to income	85.0%	82.0%	82.4%	83.0%	83.3%
Expenses to income before payments to banks	63.2%	57.7%	57.0%	58.7%	59.3%
Basic net profit per ordinary share (in NIS)	**285**	**324**	**309**	**275**	**249**

* Amount less than NIS 0.5 million

Table 2 - Consolidated Balance Sheets – Multi-Period Information

Reported amounts
In millions of NIS

	Year ended December 31, 2015				
	2015	**2014**	**2013**	**2012**	**2011**
Assets					
Cash	15	15	12	13	25
Debtors in respect of credit card activity	2,314	1,962	1,896	1,744	1,594
Allowance for credit losses	(13)	(11)	(10)	(10)	(7)
Debtors in respect of credit card activity, net	**2,301**	**1,951**	**1,886**	**1,734**	**1,587**
Computer and equipment	- *	2	2	2	2
Other assets	549	449	438	400	337
Total assets	**2,865**	**2,417**	**2,338**	**2,149**	**1,951**
Liabilities					
Credit from banking corporations	4	2	3	4	1
Creditors in respect of credit card activity	2,510	2,108	2,017	1,868	1,708
Subordinated notes	-	-	56	56	58
Other liabilities	19	15	15	17	18
Total liabilities	**2,533**	**2,125**	**2,091**	**1,945**	**1,785**
Capital	332	292	247	204	166
Total liabilities and capital	2,865	2,417	2,338	2,149	1,951
Principal financial ratios					
Capital attributed to the shareholders of the Company to total assets	11.6%	12.1%	10.6%	9.5%	8.5%
Total income to the average balance of assets	14.2%	14.2%	14.4%	14.5%	14.5%
Total expenses to average balance of assets	12.1%	11.6%	11.8%	12.0%	12.1%
Tier 1 shareholders' equity ratio	15.4%	15.1%	13.8%	12.0%	10.6%
Overall capital ratio	16.1%	15.7%	16.9%	15.3%	14.1%
Leverage ratio (1)	8.5%				
Rate of expenses in respect of credit losses from the average balance of debtors in respect of credit card activity	0.29%	0.05%	0.06%	0.37%	0.27%
Rate of return on net profit to average capital	12.9%	16.7%	19.3%	20.8%	23.8%
Rate of return on profit before taxes to average capital	17.7%	22.7%	25.6%	27.7%	29.9%

* Amount less than NIS 0.5 million

(1) Pursuant to Proper Conduct of Banking Management Directive No. 218 "Leverage Ratio", the Company began to publish the rate of "leverage ratio" commencing the financial statements of June 30, 2015

Main Risks to which the Company is Exposed

The Company's activity is subject to risks, the main ones being:

Credit risk –deriving from the possibility that a borrower / counterparty will not meet its obligations in accordance with the agreed conditions.

Operational risk – deriving from failing or defective internal processes, from human actions, from system malfunctions, and from external events.

Information security risks and cyber incidents: - the risk that events of leakage of information which includes sensitive business and customer details, as well as cyber attacks which are directed against the Company's infrastructures.

Legal risk – deriving from the absence of the possibility of legally enforcing the existence of an agreement, impairment in the Company's activity deriving from an erroneous interpretation of a provision of a law or regulation, or the existence of a legal proceeding (e.g., class actions) brought against the Company.

Regulatory risk – deriving from material changes, from legislative processes and/or from draft directives of various regulatory entities, providing restrictions on the Company's areas of activity and sources of income, or imposing obligations whose implementation involves significant costs to the Company.

Strategic risk – deriving from taking flawed business decisions, the improper implementation of business decisions and the failure to perform or adapt a work plan to changes in the business environment.

Targets and Business Strategy

The Company operates according to a strategic program, taking into account the changes and trends in the regulatory business environment in relation to its various activities.

The central issues and points of emphasis to which the strategic program relates and are reflected in the annual work plan are:

Focus on the customer: Developing solutions and adapting a service package and products for the Company's customers. Strengthening the customer experience when they come in contact with the Company and expanding the added values to the various customer sectors, while creating preference, retention, loyalty and quality service.

Leadership in payments: Preserving the leadership in payments through joint activity with banking distribution partners and clubs, while maintaining a high quality of service and value proposal to its card-holding customers.

Deepening cooperation with merchants with an emphasis on expanding the package of products and services and adapting them to the merchants' various needs.

Continuing activity to create a preference for electronic payments in the world of e-commerce, as well as paper-based payments, while penetrating new segments and intensifying activity in existing industries.

Excellence and efficiency in processes: Establishing flexible processes and organizational effectiveness, while maintaining while maintaining processes of control and optimal resource utilization in the organization.

Developing and training human resources, adapting to changing needs.

Expansion in areas of credit for private and corporate customers: competition in the credit area is growing and to address the changing needs of its customers, the Company invests great efforts in finding a range of credit solutions through various channels which are tailored to diverse populations and needs.

In addition, there is a constant improvement in the area of underwriting and credit control, for risk-controlled support to broaden activities in the various sectors.

Advanced technological infrastructure: preserving a high technological level that supports business development, the needs of customers in a multi-channel digital and advanced service and a response to the challenges of innovation in the technological environment.

The Company attaches great importance to the provision of quality service at a high level and is working on expanding the service to its customers in a variety of channels including the Internet and mobile phone.

All of the activities will be carried out while maintaining a high quality of risk and fraud management systems and as part of the Company's risk appetite.

The strategic plan, and, as a consequence, the work program, were based on various assumptions. Given the uncertainty in many elements, including the regulatory environment, macroeconomic and competitive environment and technological changes, the program may not be realized in full or in part.

The work plan and working assumptions relate to the Company's future activity and therefore, the information in this chapter is presumed to be forward-looking information.

Strategic cooperation

Agreement with Isracard

The Company has an agreement with Isracard for the purpose of operating the activity of issuing the Company's credit cards and clearing transactions in Israel made with merchants through American Express. The Company participates in all of the shared costs to Isracard and to the Company, according to its proportional share in the activity. In consideration of carrying out activity of Isracard in the operation of the arrangement, the Company pays Isracard a fee and other payments as agreed between them. See Note 23 to the financial statements regarding interested parties and related parties, below.

Contractual arrangements with international organizations

In April 2010, the agreement with the American Express organization was renewed for a further seven years. By virtue of this agreement, the Company continues to use the franchise for issuing and clearing American Express-type credit cards. In addition, by virtue of its membership in the American Express organization, the Company has a general user-right to the brands owned by the American Express organization.

Agreements with banking corporations

The Company are connected with the banks noted below in various agreements for enrolling customers for the Company's credit card arrangement:

Bank Hapoalim B.M. (the parent company), , Bank Yahav for Government Employees Ltd.,., Bank Massad Ltd., Bank Otsar Hahayal Ltd., First International Bank Ltd., Mizrahi-Tefahot Bank Ltd., Bank Jerusalem Ltd. and Bank Igud Ltd. (jointly, the "**Banks Under Arrangement**").

Pursuant to the Company's various agreements with the Banks Under Arrangement, each bank Under Agreement was granted the authority to determine which of the customers will be found to be appropriate to join the Company's card arrangement, and to recommend to the Company on its joining the card arrangement. Each of the Banks Under Arrangement, as aforesaid, is responsible for honoring every voucher and debit carried out by the customer on the date of presenting the vouchers or debits to the Bank Under Arrangement. As part of the abovementioned relevant agreements, the payment arrangements and the relevant conditions vis-à-vis every Bank Under Arrangement are also included,

Agreements with customer clubs

Pursuant to the activity of the customer clubs, the Company has entered into agreements with various entities representing various customer groups ("**club members**") for the issuance of credit cards to those included in these customer groups. The cards issued to the club members usually give them discounts, benefits and special services in a range of merchants who honor the club card. The entities assuming part of the activity of the customer clubs of the Company and Isracard, including, *inter alia*, employees' organizations, professional organizations and commercial corporations interested in the issue of club cards to their customers and/or employees, via credit card. Within the framework of the various types of credit cards, the Company issues credit cards in cooperation with the organizations, clubs and professional and other consumer bodies, such as Hever - for career military personnel and retirees, "Members" cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, LifeStyle club, El Al Flycards.

The Company's principal service-providers include:

Isracard – An arrangement is in place between the Company and Isracard, under which Isracard administers and operates credit card issuance and clearing activity on behalf of the Company. For further details, see above "Strategic cooperation – Agreement with Isracard".

Banking Clearing Center ("Masav") – To the best of the Company's knowledge, Masav operates a system for electronic clearing between banks and the customers of various banks, for debiting or crediting (as applicable) the accounts maintained in the banks. The Company regularly and routinely uses the clearinghouse service of Masav. Failure to receive the service is liable to have a significant adverse effect on the Company's activity.

Automatic Bank Services Ltd. ("ABS") ABS serves as a communications channel between merchants and clearers. To the best of the Company's knowledge, ABS operates a system for collecting transactions executed using credit cards in Israel, centralizes the information on the transactions executed by the various merchants, sorts the transactions by the identity of the relevant clearer with which the merchant has an agreement, and transmits electronic messages to the clearers for approval of execution of the transaction. 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 statement 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 temporarily 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.

Sources of finance

The Company funds its activity, mostly from its own resources and from daily short-term credit by means of "on-call" loans.

The directives of the Supervisor of Banks include, among other things, 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). The Company, as part of the Bank Hapoalim Group, may be restricted, from time to time, from receiving credit from other banking corporations due to these directives. According to the Company's estimates as at the date of the report, it has no effective restriction in receiving credit under the aforesaid directives.

With effect from 2015, the Company received a secured credit facility from banking corporations, *inter alia*, to comply with the regulatory requirements to which it is subject.

Explanation and Analysis of Results and Financial Position

Trends, Phenomena, Developments and Significant Changes

Management's handling of material current topics

As a rule, a management meeting is held once a week to discuss material current and strategic subjects and all of the areas required by law, including significant trends, developments and changes which have occurred, and those which are expected in the credit card sector, the banking industry and the economy, as a whole, as far as they are relevant, and their potential impact on the Company's results of operations is examined, for making decisions and outlining the appropriate policy and formulating recommendation to the Board of Directors on the various matters, as required.

The credit card sector in Israel

As of the date of the report, the following companies are active in Israel in the area of the issuance and clearing of credit cards: (1) The Company, which issues and clears American Express credit cards; (2) Isracard, which issues and clears Isracard-type credit cards, jointly with Europay, issues and clears Mastercard-type credit cards, and also issues and clears Visa-type credit cards; (3) Leumi Card Ltd. (hereinafter "**Leumi Card**"), which, to the best of the Company's knowledge, issues Visa and Mastercard-type credit cards and clears Visa, Mastercard and Isracard-type cards; (4) Credit Cards for Israel (hereinafter "**CAL**"), which, to the best of the Company's knowledge, issues Visa and Mastercard and Isracard-type credit cards and clears Visa, Mastercard and Isracard-type cards, and (5) Diners Club Israel Ltd., a subsidiary of CAL, (hereinafter "**Diners**"), which, to the best of the Company's knowledge, issues and clears Diners-type credit cards.

The credit card companies in Israel issue and clear international credit cards, as aforesaid, (American Express, Mastercard, Visa and Diners) under licenses granted to them by the relevant international organizations.

In recent years, two clear trends may be seen in the sector for issuing credit cards in Israel: (1) the issuance of non-bank credit cards by the credit cards companies, which are mostly linked to customer clubs or to consumer bodies and others; (2) the expansion of the range of services supplied by the credit card companies in the area of credit and finance to card-holders and merchants, via the issue of "revolving credit"-type credit cards, which enable a card-holder to determine the aggregate of the amounts and dates on which it will be debited, in accordance with its needs and abilities.

The credit card sector in Israel is characterized by frequent and dynamic regulatory intervention in the businesses of the companies operating in the field, both because each of them is an "auxiliary corporation", and in connection with their activities in the area of credit cards, including (among other things) the Debit Cards Law, 5746 – 1986, ("the Debit Cards Law") and the related regulations, the |Banking Law (Service to the Customer), 5741 – 1981, ("the Banking Law (Service to the Customer)") and the Prohibition of Money Laundering Law, 5760 – 2000 ("the Prohibition of Money Laundering Law") and the order which was issued thereunder by the Bank of Israel In addition, Proper Conduct of Banking Management Directive No. 470, which regulates the activity of credit card companies, and Proper Conduct of Banking Management Directive No. 311, which provides standards for risk management, with the aim of strengthening the financial solidity of the banking system also apply to credit card companies in Israel.

Economic and Financial Review

Development in the Global Economy

World growth slowed slightly in 2015 to a rate of 3.1%, compared to 3.4% in the previous year (according to estimates of the International Monetary Fund). The slowdown in growth centered on emerging economies and developing countries, which have been the main contributors to global growth in recent years. In the developed countries, growth was similar to that in the previous year, finishing at 1.9%. An improvement in growth was particularly noticeable in certain European countries, such as Ireland, Spain and Italy. Growth in United States reached 2.4%. Eight years after the beginning of the crisis, one can say that growth rates in the developed countries have yet to return to the levels reached prior to the crisis and it is increasingly likely that this situation will persist in the coming years. This may be explained by demographic processes of ageing of the population, a decrease in non-bank investments, inter alia, as a result of the debt crisis and utilization of the effect of technological improvements. These factors are also generally expected to impact growth in future years. The European economy posted a considerable improvement in growth in the past yea, but, in several aspects, there were still signs of a crisis: unemployment rates remained high, and similarly, government debts. Weakness in the labor market and a fall in prices of energy and goods increased deflationary pressures in Euro Area, and the Central European Bank expanded monetary policy even further – deposit interest (of the commercial banks in the Central Bank) was lowered to 0,3% and the Bank undertook a policy of quantitative easing (purchasing debentures) at least until March 2017. From this perspective, the situation in the United States is very different, the unemployment rate went down to 5%, salaries were on an increasing trend and activity in the real estate sector continued to recover. These factors led the Federal Reserve in the Unites States to decide on an increase in interest rates in December 2015 to a level of 0.25%-0.5%. The gaps in the basic data between the United States and Europe and the opening of the interest rate gaps between the central banks led to a strengthening of the U.S. dollar against most world currencies. The price of oil fell sharply from US$ 60 per barrel at the beginning of 2015 to US$ 30 at the end. The steep decline in prices is apparently mainly as a result of an increase in supply, due to disputes between the members of the OPEC cartel and the production from oil shale, as well as due to moderated demand. The prices of other commodities, such as metals and agricultural goods, also fell, albeit at much more moderate rates. The price changes had a great effect on countries, whose economy is based on the export of goods, some of which have encountered crises. Notable among the large countries, Russia has entered a recession and budget distress due to falls in the price of oil, and Brazil, whose economy is also in recession, with a fiscal crisis, caused by, among other things, the fall in the price of agricultural goods. Consumers in developed countries have generally benefitted from the fall in energy prices, although in these countries, too, there were victims, particularly energy companies, which suffered heavy losses. According to official estimates, China's economy posted a slowdown in growth from 7.3% to 6.9%. There are unofficial estimates that growth is considerably lower than those estimates. An increase in the risks result in an exit of capital from China and sharp falls in share prices. The government's measures to halt the flight of capital did not gain investor confidence. The exchange rate of yuan was made more convertible and the currency underwent a moderate devaluation. Looking forward, the developments in a number of emerging markets, particularly in China, represent a significant risk factor in the coming year.

Israel's economy

Activity in the economy

Growth in 2015 slowed to a rate of 2.6%, only 0.6% per capita. The low growth arose from a decrease of 2.5% in the export of goods and services and a decrease of 1.4% in investments in fixed assets. On the other hand, private consumption grew by 4.7%. The decrease in exports was affected by a weakness in global trade, the continuing appreciation in the exchange rate of the shekel and the slow recovery of the tourism sector after Operation Protective Edge in the summer of 2014. The fall in investments is worrying, as it has an impact on the growth potential of the economy in future years. The investment in housing construction continued to increase during the year and the annual rate of building starts is expected to approach 50 thousand residential units. There was a fall in the number of non-residential building construction, perhaps, reflecting the saturated state of the commercial and office space. Private consumption has increased for the last three years at rates considerably higher than GDP, and it is possible that a zero interest rate has had a significant impact on this. Analysis by sector indicates that the industry sector grew by a low rate of1.2%, while the commercial and hospitality and food sector increased by 4.9%. The past year also saw an improvement in the high-technical industry – Israeli companies raised a record amount of US$ 4.4 billion, mostly from foreign investors.

As noted above, the housing market was also very active – reflected in an increase in the rate of building starts and in the peak of the number of acquisitions of apartments (new and secondhand). Apartment prices continued to rise rapidly by 7.6% in November 2015, compared to November 2014. The new government which came to power at the beginning of the year placed the subject of housing at the center of its economic policy. In July 2015, purchase tax on purchasers of a second apartment was raised from 8% to 10%, and the Ministry of Housing announced a policy, according to which State land would from now be marketed according to the "Price to the New Household" program. Currently, the volume of transactions in apartments in the fourth quarter of the year remained high, but the share of the investors in purchases fell significantly.

The labor market maintained its strong showing, with the rate of unemployment falling to an average of 5.3%, and an increase of 2.6% in the number of people employed. The average salary increased by 2.3%, partly as a result of an increase in the minimum wage in April 2015 from NIS 4,300 to NIS 4,650. In February 2016, the S&P Credit Rating Agency affirmed the State of Israel's external credit rating at A+.

Fiscal and monetary policy

The budgetary deficit in 2015 amounted to NIS 24.5 billion, approx 2.15% of GDP. This was lower than the original budget deficit for this year which was 2.75%. For most of the year, the Government acted without an approved budget, but rather according to the previous year's budget. This possibly had a certain impact on the expense side, but the most surprising was the side of income from taxation which increased by 7.1% compared to last year (excluding the effect of changes in legislation). The sharp increase in tax collection, which was significantly higher than growth in the economy, reflects, among other things, the boom in real estate, and enhanced efforts by the Tax Authority which resulted in increased collection. The relatively low deficit and negative inflation led to a decrease in the rate of public debt to GDP of 64.9%, compared to 66.7% at the end of 2014. The Bank of Israel interest rate fell in March 2015 from a level of 0.25% to 0.1%, and then, remained unchanged until the end of the year, and in the first two months of 2016. Monetary policy was expansive against a background of negative inflation, and due to the need to adapt the policy to that adopted in developed countries.

Inflation and exchange rates

During 2015, the consumer price index (the index for the month) fell by 1.0%. The decrease in the index was affected by two main factors: a fall in energy prices and steps taken by the Government to reduce the cost of living. The Bank of Israel estimates the impact of these two factors to be a negative contribution of 1.7% to inflation, i.e., without theses effects, inflation would have reached 0.7%. The low inflation rate was also affected by an appreciation in the exchange rate of the shekel against the currency basket and the continuing fall in commodity prices worldwide. The housing item (measured by rents) was the largest positive contributory factor to the index, this increasing by 2.2%. As of the end of January 2016, indications in the capital market suggest that inflation in 2016 will also be negative. It should be noted that, against the background of a steep fall in world oil prices to below US$ 30 per barrel at the beginning of the year, and a reduction on the Government's rates. The shekel was devalued by 0.3% against the dollar in 2015, while against the euro, it appreciated by 10.1% in the period. The U.S. dollar strengthened against all other world currencies during the year. The exchange rate of the shekel against the basket of currencies appreciated by 7.3%. Pressures for a revaluation of the shekel this year increased due to a further increase in the surplus on current account in the balance of payments, inter alia, against a background of fall in energy prices around the world. The Bank of Israel purchased foreign currency estimated at US$ 8.8 billion, in order to moderate the impact of the appreciation of the shekel exchange rate.

Regulatory initiatives

1. In August 2011, Amendment no. 18 to the Banking Law (Licensing) was published in the Official Government Gazette, providing, *inter alia*, that an entity which is engaged in the clearing of debit card transactions must obtain a clearing license. Further, in December 2013, the Banking Supervision Department published the process of obtaining a clearer's license and the general criteria and conditions for a controller and holder of the means of control in an applicant for a clearing license. In November 2015, the Banking Supervision Department published an amended draft of the process for obtaining a clearer's license. The draft includes, inter alia, the capital requirements from a clearer, and various directives were provided relating to the method of holding money which has not yet been transferred to the merchants, data security, adherence to the EMV standard, compliance with the provisions of the law, etc. As well as the draft, the Banking Supervision Department issued a press release stating *inter alia*, that a new clearer who has received a license from the Bank of Israel will be given an option to join the debit card system through hosting on infrastructures of an existing clearer, on the basis of an agreement to be signed between them; the minimal core control for ownership in a clearer was reduced as set forth in the amended draft; the financial strength of the controlling owner in the clearer was also reduced in accordance with that stated in the amended draft and the list of entities that was able to make up the core control in a clearer was expanded.

2. In February 2015, the Bank of Israel published recommendations and measures to expand the distribution and use of immediate debit cards in Israel and the intensification of competition in the area of debit cards. Pursuant to the

recommendations, inter alia, the Banking Supervision Department will provide regulations for distributing immediate debit cards to customers of the banks and rules for the immediate monetary settlement of accounts in transactions executed by immediate debit cards and the method of presenting a summary of the transactions executed by card. In June 2015, the Banking Supervision Department published a number of directives which were intended to lead to the implementation of the said recommendations, including a time-table for implementation, and in August 2015, a temporary provision was published in the Official Government Gazette, in which the Governor of the Bank of Israel announced an interchange fee for immediate debit transactions as a commission under supervision and the rate was set at 0.3% of the amount of the transaction for a period of a year, with effect from April 1, 2016.

3. At the same time as the above, on the subject of immediate debit card, in June 2015, the Banking Supervision Department published a directive for introducing the use of the EMV security standard, both on the side of the issue and on the side of the clearing. The directive provides, inter alia, a time-table for the issue of cards supporting the EMV standard and connecting terminals supporting the standard, and coming into force of the mechanism of diverting responsibility from the issuer to the clearer.

4. In December 2015, the Banking Supervision Department published a draft directive on the issue of clearers and the clearing of debit card transactions, pursuant to which some of the provisions mentioned in paragraphs 1-3 above were regulated, along with other provisions, including: capital requirements from a clearer; the protection of monies in clearing; the duty of complying with the provisions of the law in accordance with the nature of clearer; the transfer of monies in immediate debit card transactions; the mechanism of allocating responsibility; clearer-merchant relations and leasing of terminals.

5. In June 2015, The Minister of Finance and the Governor of the Bank of Israel appointed a committee to expand competition in common banking and financial services extended to merchants and non-large businesses (the Shtrum Committee). The Committee is to make recommendations on the subject of the introduction of new players to this field, including through the separation of credit card companies from bank ownership. The Committee was also charged with the duty of recommending necessary complementary measures and the removal of barriers to the entry of players and the increase in competition, as aforesaid. On December 14, 2015, the Committee's interim report was published, in which it was recommended to, inter alia: to separate the credit card companies from the major banks within three years from the date of adopting the Committee's conclusions in legislation; to determine restrictions on the entities which are authorized to purchase the credit card companies; to increase competition in the clearing market (through providing mitigating conditions for the grant of a clearing license, the reduction in the interchange fee no later than 2018, a transition from monthly to daily clearing within a few days), to enable the separated credit card companies to use information at their

disposal arising from the operation of issuing and clearing activity; to compel all banks to distribute all credit card under equivalent conditions; to prohibit the large banks from issuing credit cards for four years and enable them to issue debit cards, to enable the separated credit card companies to issue credit cards in conjunction with banks (other than the large banks) or financial entities up to a rate of 25% of their total credit card facilities and retaining supervision over the credit card companies by the Bank of Israel. With regard to some of the recommendations, there are differing opinions of some of the members of the Committee. The Committee applied to the public to present its positions regarding the interim conclusions through February 7, 2016. The Company has submitted its position to the Committee. The Committee will hold hearings during the month of February 2016.

6. In July 2014, the Banking Supervision Department issued a directive on the subject of non-banking benefits for customers, which is intended to provide clear and consistent rules that will enable customers to make a reasonable comparison between the process of banking products and services, and make it easier for them to distinguish between banking benefits and non-banking benefits, and are also intended to assist in increasing competition in the banking system over the price of banking services. The directive came into effect on January 1 2015.

7. In September 2014, a circular was distributed by the Banking Supervision Department regarding an amendment to Proper Conduct of Banking Management Directive No. 221 "Liquidity Coverage Ratio" and a circular of the Bank of Israel was published regarding Temporary Provision – Implementation of the Basel Third Pillar Disclosure Requirements – Disclosure in respect of Liquidity Coverage Ratio. The effective date of the directive was determined at April 1, 2015. For further details, see "Capital and Capital Adequacy", below.

8. In October 2014, the Banking Supervision Department issued a directive on dealing with customer complaints, which is aimed at improving the banking system's handling of customer complaints. The directive will come into effect on April 1, 2015.

9. In December 2014, an amendment to Rules of Proper Disclosure was published, providing inter alia, a method for providing notices of changes relating to account management conditions, including changes in the terms of commissions and benefits in these conditions which were given for a period exceeding three months, both for all customers and for certain customers. The amendment came into effect on April 1, 2015.

10. In April 2015, the Bank of Israel published Proper Conduct of Banking Management Directive No. 218 "Leverage Ratio". As of the publication date of the reports, the Company complies with the minimum requirement and has begun to publish the rate in the financial statements, commencing the financial statements published at June 30, 2015. For further details, see "Capital and Capital Adequacy", below.

11. In May 2015, the Banking Supervision Department published a draft directive on the subject of proceedings for the collection of debts. The amendment is intended to

regulate transactions that need to be taken to increase fairness and transparency when collecting debts from customers, which do not comply with the terms of their loans and do not repay it as due.

12. In May 2015, a private bill was placed on the table of the Knesset for Increasing Competition in the Area of Credit – The separation of Credit Card Companies from Banks. In June 2015, the Ministerial Committee for Legislative Affairs decided to postpone discussion of the proposed law until after publication of the conclusions of the Shtrum Committee and the arrival at a consensus between the proposers of the Ministry of Justice and the Ministry of Finance. In November 2015, the Ministerial Committee for Legislative Affairs decided to defer discussion on the proposed law for a further three months. An additional private bill on the matter of the separation between the credit card companies and the banks was placed on the Knesset table in June 2015.
13. In May 2015, the Banking Supervision Department published a file of questions and answers for the implementation of the Prohibition of Money Laundering Order and Proper Conduct of Banking Management Directive No. 411 in credit card companies, including the position and binding interpretation of the Banking Supervision Department for the Order and the Regulation.
14. In June 2015, the Bank of Israel published an amendment to Proper Conduct of Banking Management Directive No. 308 "Compliance and the Compliance Function in the Banking Corporation". The update deals mainly with the duties of the compliance officer, the duties of the management and the board of directors, the compliance policy and plan and the scope of activity of the compliance function. The amendment came into effect on January 1, 2016.
15. In June 2015, the Banking Supervision Department published an update to Proper Conduct of Banking Management Regulations no, 301 "Board of Directors" and no. 307 "Internal Audit". Inter alia, the amendments relate to the current functions in the credit committee, the committee for transactions with related persons and the remuneration committee.
16. In June 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Directive No. 313 "Restrictions on Indebtedness of a Single Borrower and a Group of Borrowers". The update is further to previous actions of the Banking Supervision Department which are intended to minimize the concentration of the credit portfolios in the local banking system, and against a background of the recommendations of the Basel Committee regarding large exposures, inter alia, the definition of capital was limited to Tier 1 capital, and the restriction on the indebtedness of a bank group of borrowers to a banking corporation was changed from 25% to 15%. The amendments to the director came into effect on January 1, 2016, except for the matter of the definition of capital, for which the increment will be introduced gradually through December 31, 2018.
17. In June 2015, the Banking Supervision Department published an amendment to a

directive relating to the early repayment of non-housing loans. The amendment was made as part of the implementation of the recommendations of the summary report of the Team Examining Competition in the Banking Industry, and its purpose was, inter alia, to determine a uniform and clear mechanism for determining the interest rate according to which the capitalization component in non-housing loans was computed, and to create uniformity, as far as possible, between the early repayment of a housing loan and early repayment non-housing credit. The amendment came into effect on April 1, 2016.

18. In June 2015, the Banking Supervision Department published a letter on the subject of Risk Management in a Cloud Computer Environment, which was intended to provide rules regarding the use of cloud computers in a way that would balance the advantages in the use of these technologies and the possible exposure of the banking corporation and credit card company to related material operating risks, *inter alia*, for data security and business continuity.

19. In July 2015, the plenum of the Knesset approved in a first reading an amendment to the Execution Law, according to which a temporary provision enacted authorizing the Registrars of the Execution Office to grant a discharge to restricted debtors by means under various conditions. In addition, in June 2015, the plenum of the Knesset approved in a preliminary reading, a proposal to amend the Execution Law, whereby in certain circumstances, an execution discharge would be granted to a debtor, in such a way that restrictions to which is subject would be canceled and the debt written off. The two proposals were linked together, and in July 2015, the plenum of the Knesset passed the said amendment and proposal in a second and third reading.

20. In July 2015, the plenum of the Knesset approved a first reading of the proposed Regulation of Non-Banking Loans Law, according to which an interest cap will be determined which will apply to all of the lenders in the economy, including the banking system. In November 2015, the Constitution, Law and Justice Committee held a discussion for the preparation for a second and third reading.

21. In July 2015, an amendment to the Banking Rules relating to commissions came into effect, according to which the number of commissions collected from small merchants receiving clearing services, was to be in accordance with a uniform tariff-list of common services in the area. In addition, pursuant to the amendment, the rules relating to the commissions collected from credit card holders were amended, for example through the unification of the rules relating to the collection of conversion commission. In addition, commencing July 2015, an order came into force restricting the maximum amount of the commission that may be collected for the services of "notices or warnings", and an order restricting the maximum amount of the commission for the services that may be provided by a clearer to the provider of discounting services in debit card transactions.

22. In July 2015, the Knesset in plenum approved in a first reading the proposed Reduction in the Use of Cash Law, which was published in January 2015, and approved by the Ministerial Legislative Committee in May 2015. which is intended to

lead to the implementation of the report of the Committee to Reduce the Use of Cash in the Israeli Economy, determining gradual restrictions on the use of cash and negotiable cheques, in order to reduce the phenomenon of a black economy in Israel, to fight crime and money-laundering and permit the use of advanced and effective means of payment. Among other things, the proposed law accords powers to the Antitrust Commissioner to determine rates of interchange fee of debit card transactions. The proposed law provides that a condition of its incidence is that immediate debit cards are an available product similar to deferred debit cards.

23. In August 2015, the Banking Supervision Department published an update to Proper Conduct of Banking Management Directive No. 301A "Remuneration Policy in a Banking Corporation and Credit Card Companies". according to which, inter alia, remuneration policy and agreements of a banking corporation and credit card companies will include a stipulation that any variable remuneration that is granted and paid will be recoverable from a key employee, providing fulfillment of criteria for recovery which will be determined by the banking corporation and the credit card company and will include at least the cases in the draft directive, which are intended for particularly unusual circumstances. The period of recovery will be fixed at the date of the grant, and will range from five years for a key employee to seven years for office-holders defined in the Companies Law. In addition, a requirement has been added that the chairman of the board of directors will receive only fixed remuneration, which will be determined, inter alia, in relation to the manner of remuneration of the members of the board of directors, and generally accepted social conditions with regard to all of the office-holders in the banking corporation and credit card company. Directives were also provided which are intended to prevent a possible conflict of interests related to the duties of office-holders and employees and their remuneration.

24. In August 2015, the Bank of Israel published an interim report on "the chain of the execution of debit card transactions" including recommendations for increasing competition efficiency and stability in the debit card market, which, according to the Bank of Israel, are expected to remove the barriers existing in the market and permit the entry of new players.

25. In September 2015, the Bank of Israel published a new Proper Conduct of Banking Management Directive No. 361 "Cyber Management". The directive includes the basic principles for the management of cyber protection. In recent years, Isracard has invested significant resources in cyber protection. With the publication of the directive, Isracard is prepared with an action plan, approved by the management, for integrating the provisions in the new directive in the company, in addition to other directives to which it is subject on this topic, for example: business continuity, risk management, in accordance with the clarifications made by the Bank of Israel relating to the method and dates of implementation.

26. In October 2015, the Knesset in plenum approved in a first reading of the Credit Data Service Law – the establishment of a system for sharing credit data and the

supervisor of the system, which is intended to improve the credit data in the economy in order to increase competition in the retail credit market, increase accessibility to credit and reduce discrimination in this area.

27. In October 2015, the Knesset in plenum approved in a first reading the proposed Intensification of Tax Collection and Increased Enforcement Law, which is intended, inter alia, to fight black money and deepen the collection of tax, and pursuant to which, a special reporting duty will be provided for financial entities, such that they will report on a routine basis to the Tax Authority on the activity of their customers.

28. On October 1, 2015, the rate of value added tax was reduced to 17%.

29. In October 2015, a memorandum of the Prohibition of Money Laundering and the Financing of Terrorism Law was circulated, containing amendments which are intended to improve the struggle against prohibition of money laundering and the adaptation of the existing legislation to international standards in the field.

30. In November 2015, the Banking Supervision Department published a letter, according to which the banking corporations and credit card companies were obliged to determine policy, procedures and processes in connection with a Company-initiated application to retail customers for granting a non-housing loan.

31. In November 2015, the plenum of the Knesset approved the first reading of the proposed Minimum Salary - Raising the Minimum Salary Amounts Law, pursuant to which it is proposed to increase gradually the minimum salary, pursuant to a temporary regulation, up to the sum of NIS 5,300. The temporary provision will be in effect until the day prior to the date on which the minimum salary amount pursuant to the existing law exceeds the minimum salary amount for the month pursuant to the temporary regulation.

32, In November 2015, the Knesset plenum approved in a second and third reading amendments to the Arrangements Law, according to which, commencing December 1, 2015, the pension marketing services received by an employer would be separated, except under the conditions stipulated in the Law.

33. In November 2015, the plenum of the Knesset approved in a second and third reading, in the framework of the Arrangements Law, the Economic Program Law for 2015 and 2016, pursuant to which, *inter alia*, non-banking entities can raise capital through the issue of notes to the public. The increase in the sources of finance is expected, inter alia, to increase the ability of the non-banking entities to compete with the banking system in providing credit to households and small and medium-sized businesses, thus reducing the costs of credit in the retail credit sector.

34. In January 2016, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Management Directive No. 418, according to which the opening of clearing accounts would be permitted for individuals via the Internet, in accordance with the conditions set forth in the draft, including restrictions on the scope of clearing.

35. In January 2016, the Knesset plenum approved in a second and third reading the reduction in the rate of companies tax from 26.5% to 25%, effective January 1, 2016

36. In January 2016, the Banking Supervision Department sent to banking corporations a new draft Proper Conduct of Banking Management "Online Banking", and drafts of an amendment to the complementary directives to the abovementioned regulation, pursuant to which an individual or a small business would be able to receive services from the banking corporations via the Internet or mobile phone. Thus, inter alia, it would be possible to join online banking services, a customer who joined online banking services would be able to receive a preliminary password online, and it would be possible to receive messages and warnings through online banking. Alongside the reliefs, the draft imposes increased responsibility on the banking corporations for the management of the risks inherent in the expansion of online activity and the protection of data. The draft will be discussed with the banking corporations during February 2016.

37. With regard to new accounting standards and new regulations of the Banking Supervision Department in the period and in the period before their implementation, see Note 2E to the financial statements.

The large number of regulation proceedings, as far they will be implemented, is likely to have a significant adverse impact on the Company's activities, but at this stage, it is not possible to assess its scope.

Disclosure regarding attention drawn by the Auditors

Sometimes, the independent auditor finds it appropriate to include a change from the unqualified version by the addition of a paragraph directing attention which is intended to emphasize a certain matter which significantly affects the financial statements and is included in a note to the financial statements. The addition of a paragraph directing attention, as aforesaid, does not affect the auditor's opinion. Therefore, this paragraph will come at the end of the auditor's report and will refer to the fact that the auditor's opinion is not qualified in this context. The auditors have directed attention to what is stated in Note 18B.2 regarding regulatory initiatives and Note 18C regarding requests to approve certain claims as class actions against the Company,

Events after the balance sheet date

With regard to events after the date of the financial statements, see Note 24 to the financial statements.

Changes in accounting policy and critical estimates

Adoption of U.S. accounting principles employee rights

On April 9, 2014, the Banking Supervision Department published a circular regarding the adoption of United States accounting principles regarding employee rights. The circular updated the requirements of recognition, measurement and disclosure regarding benefits to employees in Public Reporting Directives in accordance with accounting principles generally accepted in banks in the United States. The circular provides that the amendments to the Public Reporting Directives will apply from January 1, 2015.

In addition, on January 11, 2015, a circular was published regarding employee rights, including disclosure formats and transitional provisions for the initial implementation. The circular notes that the Bank of Israel has reached the conclusion that in Israel, there is no deep market for high-quality corporate debentures. Accordingly, the rate of capitalization for benefits to employees will be computed on the basis of the yield of Government debentures in Israel with the addition of an average margin on AA (International) and above corporate debentures at the reporting date. For practical reasons, it is provided that the margin, will be determined according to the difference between the rates of yield to redemption, according to the periods of maturity, on corporate debentures rated AA and above in the United States, and the rates of yield to redemption, for those periods to maturity, on Government of Israel debentures, all at the reporting date.

The circular updates the disclosure requirements regarding employee rights and regarding share-based payments in accordance with accounting principles generally accepted in the banks in the United States. In addition, on January 12, 2015, a file of question and answers were published on the subject. The Company implemented the amendments to the Public Reporting Directives with effect from January 1, 2015, without retroactive amendment of comparative figures.

Material developments in Income and Expenses

The Company's net profit in 2015 amounted to NIS 40 million, compared with NIS 45 million in the corresponding period last year, a decrease of 11.1%.

The Company's profit per share in 2015 amounted to NIS 285, compared with NIS 324 in the corresponding period last year, a decrease of 12.0%.

The rate of return on net profit to average capital in 2015 amounted to 12.9%, compared with 16.7% in 2014.

The rate of return on profit before taxes to average capital in 2015 amounted to 17.7%, compared with 22.7% in 2014.

Income and expenses

Income from credit card transactions amounted to NIS 368 million in 2015, compared with NIS 332 million in 2014, an increase of 10.8%., attributable to the following factors:

♦ Net income from merchants amounted to NIS 294 million, compared with NIS 275 million in 2014, an increase of 6.9%.

♦ Income in respect of credit-card holders amounted to NIS 74 million, compared with NIS 57 million in 2014, an increase of 29.8%.

For further details, see Note 3 to the financial statements.

Net interest income amounted to NIS 1 million in 2015, compared with NIS 3 million in 2014, a decrease of 66.7%.

Expenses in respect of credit losses amounted to NIS 6 million in 2015, compared with NIS 1 million in 2014, an increase of 500%. The increase derives mainly from an increase in credit balances.

Operating expenses amounted to NIS 120 million in 2015, compared with NIS 97 million in 2014, an increase of 23.7%.

Sales and marketing expenses amounted to NIS 76 million in 2015, compared with NIS 69 million in 2014, an increase of 10.1%, deriving from a net increase in expenses in respect of benefits to credit card holders and contractual arrangements with customer clubs.

General and administrative expenses amounted to NIS 30 million in 2015, compared with NIS 28 million in 2014, an increase of 7.1%.

Payments to banks amounted to NIS 80 million in 2015, compared with NIS 82 million in 2014, a decrease of 2.4%.

The provision for taxes on profit amounted to NIS 15 million in 2015, compared with NIS 16 million in 2014. The effective tax rate from the total operating profit before taxes in 2015 reached 27.3%, compared with 26.2% in 2014.

For further details, regarding the development of income and expenses in the interim period, see Table 4 in the Corporate Governance Report, further details and appendices to the Annual Report, below.

Table 3: Operating data

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2015

	Active cards	Inactive cards	Total
Bank cards	335	99	434
Non-bank cards – Credit risk on the Company	135	84	219
Total	**470**	**183**	**653**

Number of valid credit cards as at December 31, 2014

	Active cards	Inactive cards	Total
Bank cards	288	82	370
Non-bank cards – Credit risk on the Company	121	73	194
Total	**409**	**155**	**564**

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

	For the year ended December 31	
	2015	**2014**
Bank cards	14,803	12,583
Non-bank cards – Credit risk on the Company	3,939	3,425
Total	**18,742**	**16,008**

Definitions

Valid credit card: A card issued and not canceled 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 in accordance with the Company's agreements with banks; debits related to the card are the responsibility of the relevant bank.

Non-bank credit card: A card for which customer debits are performed other than in accordance with the Company's agreements with banks; the card is not the responsibility of the banks.

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

Investments and Expenses of the Company for Information Technology

Software development costs are capitalized to fixed assets if the following can be measured reliably: development costs, technical feasibility of the software, expectation of future economic benefit from the development, and the Company's intention and sufficient resources to complete the development and use the software. The capitalized expense includes costs of materials and direct labor costs that can be attributed directly to the preparation of the asset for its intended use. Other development costs, if any, are allocated to the statement of profit and loss when they arise.

The Company has applied International Accounting Standard 38 "Intangible Assets", and the provisions determined pursuant to SOP-98-1 "Accounting for the cost of computer software developed or obtained for internal use". in view of the accounting complexity in the process of capitalizing software costs, and in light of the materiality of the amounts of the software costs capitalized, the Banking Supervision Department has provided directives for the Company on the topic of capitalization of software costs, according to a materiality threshold will be set for capitalization. Every software development project, whose total costs is below the materiality threshold determined is treated as an expense in the statement of profit and loss.

Definitions relevant to the information presented:

Expenses for information technology: Actions or processes that maintain the functionality and safety of a product. Maintenance of existing products, including software and hardware; service and support for systems and products; payment for licenses; and personnel maintaining existing systems.

Assets in respect of information technology: Software acquisition, products, and project manpower. Development of new systems for internal use, purchasing of new systems, purchasing of new products, and personnel developing new systems and products.

Software: Costs in respect of writing of computer code, development of software for internal use, and/or software acquisition.

Hardware: All physical components of the computer and its peripheral equipment.

Expenses for wages and related costs: Manpower for the maintenance of existing systems.

Expenses for usage licenses: Expenses in respect of software maintenance and software rentals.

Outsourcing expenses: External manpower for the maintenance of existing systems.

Others: Mainly hardware maintenance, maintenance of POS devices, and other expenses for information technology.

Table 4: Investments and expenses of the Company in respect of the Information Technology System

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2015 are detailed below.

Expenses in respect of information technology as included in the statement of profit and loss (in NIS millions)

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	5	1	1	7
Expenses for acquisitions or usage licenses not capitalized as assets	4	-	-	4
Outsourcing expenses	9	-	-	9
Depreciation expenses	3	* -	-	3
Other expenses	7	3	1	11
Total	**28**	**4**	**2**	**34**

Additions to assets in respect of information technology not allocated as expenses (in NIS millions)

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	-	-	-	-
Outsourcing costs	1	-	-	1
Costs of acquisition or usage licenses	*-	-	-	*-
Costs of equipment, buildings, and land	-	-	-	-
Total	**1**	**-**	**-**	**1**

Balances of assets in respect of information technology (in NIS millions)

	Software	Hardware(1)	Other	Total
Total depreciated cost	*-	-	-	*-
Of which: in respect of wages and related costs**	*-	-	-	*-

* Amount lower than NIS 0.5 million.

** Includes outsourcing expenses.

(1) Including communication infrastructures

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2014 are detailed below.

Expenses in respect of information technology as included in the statement of profit and loss (in NIS millions)

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	3	1	*-	4
Expenses for acquisitions or usage licenses not capitalized as assets	4	-	-	4
Outsourcing expenses	4	-	-	4
Depreciation expenses	1	*-	-	1
Other expenses	7	2	2	11
Total	**19**	**3**	**2**	**24**

Additions to assets in respect of information technology not allocated as expenses (in NIS millions)

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	-	-	-	-
Outsourcing costs	1	-	-	1
Costs of acquisition or usage licenses	*-	-	-	*-
Costs of equipment, buildings, and land	-	-	-	-
Total	**1**	**-**	**-**	**1**

Balances of assets in respect of information technology (in NIS millions)

	Software	Hardware(1)	Other	Total
Total depreciated cost	2	*-	-	2
Of which: in respect of wages and related costs**	1	-	-	1

* Amount lower than NIS 0.5 million.

** Includes outsourcing expenses.

(1) Including communication infrastructures

Development of assets and liabilities, capital and capital adequacy

Debtors in respect of credit card activity

1. Main credit components and balances of allowances and their development

Debtors' balances in respect of credit cards to private persons under the responsibility of the Company as of December 31, 2015 stood at NIS 389 million, compared with NIS 359 million at the end of 2014, an increase of 8.4%.

Debtors' balances in respect of commercial credit cards under the Company's responsibility as of December 31, 2015 stood at NIS 109 million, compared with NIS 77 million at the end of 2014, a decrease of 41.6%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2015 stood at NIS 1,779 million, compared with NIS 1,471 million at the end of 2014, an increase of 20.9%.

Commercial credit balances under the Company's responsibility as of December 31, 2015 stood at NIS 14 million, compared with NIS 31 million at the end of 2014, a decrease of 54.8%.

The balance of the allowance for debtors in respect of credit cards to private persons under the Company's responsibility as of December 31, 2015 stood at NIS 9 million, compared to NIS 8 million at the end of 2014, an increase of 12.5%.

The balance of the allowance for debtors in respect of commercial credit cards under the Company's responsibility as of December 31, 2015 stood at NIS 3 million, compared with NIS 2 million at the end of 2014, an increase 50.0%.

The balance of the allowance in respect of credit risk under the guarantee of banks and others as of December 31, 2015 stood at NIS 1 million, similar to the end of 2014.

The balance of the allowance in respect of commercial credit under the Company's responsibility stood at NIS 0.5 million, similar to the end of 2014.

2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2015 amounted to NIS 11 million, compared with NIS 8 million at the end of 2014, an increase of 37.5%.

The balance of impaired debts as of December 31, 2015 amounted to NIS 2 million, similar to the end of 2014.

The balance of inferior debts as of December 31, 2015 amounted to NIS 2 million, compared with NIS 1 million at the end of 2014, an increase of 100%

The balance of debts under special mention as of December 31, 2015 amounted to NIS 7 million, compared with NIS 5 million at the end of 2014, an increase of 40.0%

3. Off-balance sheet credit

Balances of unutilized credit facilities under the Company's responsibility as of December 31, 2015 stood at NIS 2,267 million, compared with NIS 2,041 million at the end of 2014, an increase of 11.1%.

Balances of unutilized credit facilities under bank guarantee as of December 31, 2015 stood at NIS 6,765 million, compared with NIS 6,128 million at the end of 2014, an increase of 10.4%.

Other off-balance sheet items

Exposure in respect of facilities to merchants as of December 31, 2015 amounting to NIS 10 million, compared with NIS 31 million at the end of 2014, a decrease of 67.7%.

Other balance sheet items

Cash and deposits in banks as of December 31, 2015 amounted to NIS 15 million, similar to the end of 2014.

Other assets as of December 31, 2015 amounted to NIS 549 million, compared with NIS 449 million at the end of 2014.

Creditors in respect of credit card activity as of December 31, 2015 amounted to NIS 2,510 million, compared with NIS 2,108 million at the end of 2014. This amount includes mostly the balances for payment to merchants in which transactions of credit card holders have been made, which, as of the balance sheet date, had not yet been repaid.

Other liabilities as of December 31, 2015 amounted NIS 19 million, compared with NIS 15 million at the end of 2014.

For further details regarding the development of assets and liabilities in interim periods, see Table 5 in the Corporate Governance Report, further details and appendices to the Annual Report, below.

Capital and capital adequacy

Applicability of Implementation

The Company is subject to measurement and capital adequacy requirements. In addition, the Company is consolidated by Bank Hapoalim to which these requirements also apply.:

In general, the capital requirement of the Company is based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives – "Capital Measurement and Adequacy" (201-211), 299.

Shareholders' equity, Tier 1 capital for 2015 amounted to NIS 332 million, compared with NIS 292 million in the corresponding period last year, an increase of 13.7%.

Overall capital for 2015 amounted to NIS 348 million, compared with NIS 305 million in the corresponding period last year, an increase of 14.1%.

Risk assets in respect of credit for 2015 amounted to NIS 1,742 million, compared with NIS 1,545 million in the corresponding period last year, an increase of 12.8%.

Risk assets in respect of market risk for 2015 amounted to NIS 8 million, compared with NIS 12 million in the corresponding period last year, an increase of 33.3%.

Risk assets in respect of operating risk for 2015 amounted to NIS 411 million, compared with NIS 381 million in the corresponding period last year, an increase of 7.9%.

The capital to risk components ratio for 2015 amounted to 16.1%, compared with 15.7% in the corresponding period last year.

Detailed information on Third Pillar in accordance with the Third Pillar disclosure requirements may be found in the Report on Risks which is published on the Company's website.

Table 5: Capital adequacy (1)

1. Capital for capital ratio computation purposes

	December 31	
	2015	2014
	NIS in millions	
Tier 1 shareholders' equity and Tier 1 capital after deductions	332 (2)	292
Tier 2 capital	16	13
Total overall capital	**348**	**305**

2. Weighted balances of risk assets

	December 31	
	2015	2014
	NIS in millions	
Credit risk	1,742	1,545
Market risks	8	12
Operating risk	411	381
Total overall capital	**2,161**	**1,938**

3. Capital to risk elements ratio

	December 31	
	2015	2014
	NIS in millions	
Overall capital ratio and Tier 1 capital ratio		
Capital for purposes of computing capital ratio (NIS in millions)	348	305
Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio	15.4%	15.1%
Overall capital to risk elements ratio	16.1%	15.7%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (3)	9.0%	9.0%
Minimum overall capital ratio required by the Banking Supervision Department (3)	12.5%	12.5%

(1) Calculated pursuant to Proper Conduct of Banking Management Regulation nos. 201-211 and 299 "Measurement and Capital Adequacy"

(2) Including the effect of the initial adoption of U.S. generally accepted accounting principles regarding employee rights, which came into effect on January 1, 2015,

(3) The minimal capital ratio required according to the directives of the Banking Supervision Department from January 1, 2015.

Minimal capital ratios

On May 30, 2013, the Banking Supervision Department published a circular regarding minimum capital ratios for all banking corporations and credit card companies in preparation for the implementation of the Basel III directives. Pursuant to the circular, all banking corporations and credit card companies will be required to comply with a minimum Tier 1 shareholders' equity ratio of 9%, through January 1, 2015. In addition, a particularly significant banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets in the Israeli banking system, will be required to comply with minimum Tier 1 shareholders' equity ratio of 10%, through January 1, 2017.

In addition, it was provided that, through January 1, 2015, the minimum overall capital ratios will stand at 12.5% for the whole banking system, and 13.5% for particularly significant banking corporations, through January 1, 2017. On May 20, 2014, the Board of Directors of the Company approved the targets for minimum capital ratios.

Capital Adequacy Target

The capital target of the Company is the appropriate level of capital required in respect of the various risks to which the Company is exposed as it is identified, estimated and assessed by the Company. This target takes into account actions of the Company management which are intended to reduce the level of risk and/or increase the capital base.

The Company's capital adequacy targets are as follows:

Tier 1 shareholders' equity to risk components of Company target – 9%.

Overall capital to risk assets of the Company target – 12.5%.

Capital Management

The goal of capital management is to achieve compliance with the detailed risk-appetite definitions and the objectives of the Company, as established by the Board of Directors of the Company, subject to regulatory directives in the area of capital requirements, while striving to allocate capital efficiently. Capital management should therefore:

- Ensure the existence of a capital base serving as a buffer against unexpected risks to which the Company is exposed, support business strategy, and allow compliance at any time with the minimum regulatory capital requirement (relating to the mix and amount of capital backing the strategy and risks of the Company).
- Address future developments in the capital base and capital requirements.
- Strive for efficient allocation of capital during the ordinary course of business of the Company.

Guiding Principles in Capital Management

Capital management is an annual process with a rolling planning horizon of three years.

Capital management is considered an integral part of the Company's strategic and financial planning. Capital management is based on the growth plans of the various business units, with the aim of assessing capital requirements during the period of the plan, and is used in the strategic planning process, in connection with feasibility and capital allocation to units.

Capital adequacy

The Company implements the standardized approach for assessing the adequacy of its regulatory capital (for credit risk, market risks and operational risks).

The Company conducts an internal process for assessing its capital adequacy in the context of which a multi-year plan is built for complying with capital adequacy targets. This plan takes into account the Company's existing and future capital requirements pursuant to the strategic plans vis-à-vis available sources of finance. Consideration is given in the plan to all of the Company's present and future risk assets, according to the allocation requirements in the framework of Proper Conduct of Banking Business Directives No. 299, 201-211 (Measurement and Capital Adequacy), against the capital adequacy targets and risk appetite.

Liquidity coverage ratio

On September 28, 2014, the Banking Supervision Department was published a circular, pursuant to which Proper Conduct of Banking Business Directive no. 221 "Liquidity Coverage Ratio" was added, adopting the Basel Committee's recommendations regarding liquidity coverage ratio in the banking system in Israel. At this stage, credit card companies are not required to comply with the circular and they will continue to meet the requirements of Proper Conduct of Banking Management Directive no. 342. Further, credit card companies will be required to comply with a regulatory quantitative model which will be adapted to the characteristics of their activity.

The Company applies the liquidity risk management policy in accordance with Proper Conduct of Banking Management Regulation mo. 342, including compliance with the minimum liquidity ratio, which is intended to ensure that the Company has sufficient high quality liquid assets within a time framework of 30 days in stress scenarios. The stress scenarios include a specific shock to the Company, a systemic shock or a combination of the two.

The Board of Directors, once a year, determines the risk tolerance in light of the management's recommendations, reflected through the determination of exposure restriction to risk and the finance strategy. The risk tolerance is determined according to the Group's strategic plans, business policy and state of the markets. In 2015, the Company complied with the restriction of the Board of Directors and he restrictions derived from Proper Conduct of Banking Management Directive No. 342.

Leverage ratio

In April 2015, the Banking Supervision Department published the provisions of Proper Conduct of Banking Management Regulation no 218 "Liquidity Coverage" (hereinafter: "the provision") .The provision established a simple, transparent, non risk-based leverage ratio, which will act as a supplementary and reliable measurement to the risk-based capital requirement and which is intended to restrict the accumulation of leverage in the banking corporation and credit card company (hereinafter: "banking corporation"). The leverage ratio is expressed in percentage terms, and is defined as the ratio between the measurement of capital and the measurement of exposure. For further details, see Note 17B to the financial statements.

Dividend distribution

The Company has not distributed dividends to its shareholders since its incorporation.

Operating Segments

General

The Company's operations are conducted in two segments of activity, constituting the core of its operations: credit-card issuing and credit-card clearing.

Seasonality

As credit-card transactions are primarily based on private consumption in Israel, seasonality in credit-card issuance and clearing is mainly derived from the seasonality of private consumption in Israel.

The Credit-Card Issuance Segment

The Company issues credit cards to its customers (credit-card holders). The credit card is used as a means of payment to purchase 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. For the issuance and operating services of the card, the issuer collects various commissions from the credit card holder and an interchange fee from the clearer or merchant.

Products and Services

The Company issues American Express-type credit cards for use in Israel and abroad. The said cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and to withdraw cash, for local and international use. The Company issues a range of credit cards adapted to various sections of population, including club cards, business cards for business customers, designated purchasing cards, Platinum cards for the highest decile and Centurion cards for the highest echelons.

The Company, through Isracard, also offers various credit programs on the basis of credit plans and various any-purpose loans on the basis of the card's credit facility, a range of options for spreading payments, information services and confirmations.

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 merchants to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer; (2) card fees – payments collected from cardholders according to a list of charges, varying based on the type of card (and on various promotional campaigns); (3) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS and (4) other sundry commissions in accordance with the Company's tariff-list.

The main expenses associated with this segment are expenses for marketing, advertising, and management of customer clubs; various benefit programs; 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 3 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted in the Company's designated marketing department, on a number of 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, and marketing and sales promotion, the operation of point plan, and marketing and sales promotion – inter alia, through the preparation of wide-scale marketing campaigns, joint campaigns with leading entities in various sectors, provision of designated services for its customers, including concierge services and international programs for awarding discounting and benefits, a telemarketing service center, direct mail, salespeople, the Company's website, and more.

Within the activity of the customer clubs, the Company routinely 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 in a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include employee' 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 "Hever" cards for regular army personnel and retirees, members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, Lifestyle club and El Al Flycards.

The Company has also begun to base its activity on the presence of and communication with customers in the digital world. As part of a broad program to improve marketing communication with customers and number of steps have been taken:

Extensive year-round activity on Facebook, which was intended to connect the card-holders to the brand interactively, interactive digital activity and the launch of the "American Express" application for smartphones.

Profit and profitability – Issuance sector

The loss of the segment amounted NIS 9 million, compared with NIS 6 million in 2014, a decrease of 50%.

The rate of return of the loss to average capital amounted to a negative return of 3.5%, compared with 2.6% in 2014.

Development of income and expenses

Income of the segment amounted to NIS 188 million, compared with NIS 165 million in 2014, an increase of 14%.

Income from commissions amounted to NIS 191 million, compared with NIS 161 million in 2014, an increase of 19%.

Net interest income amounted to less than NIS 0.5 million, similar to 2014.

Other income (expenses) amounted to an expense of NIS 3 million, compared with income of NIS 4 million in 2014.

Expenses of the segment, before payments to banks amounted to NIS 171 million, compared with NIS 140 million in 2014, an increase of 22%

Expenses of the segment, including payments to banks, amounted to NIS 201 million, compared with NIS 173 million in 2014, an increase of 16%.

Expenses in respect of credit losses amounted to NIS 6 million, compared with NIS 1 million in 2014. The income derives mainly from balances classified as being under special mention.

Operating expenses amounted to NIS 82 million, compared with NIS 65 million in 2014, an increase of 26%.

Selling and marketing expenses amounted to NIS 66 million, compared with NIS 59 million in 2014, an increase of 12%.

General and administrative expenses amounted to NIS 17 million, compared with NIS 15 million in 2015, an income of 13%.

Payments to banks amounted to NIS 30 million, compared with NIS 33 million in 2014, an increase of 9%.

The income to expenses ratio, before payments to banks, reached 91.0%, compared with 84.8% in 2014.

Loss for the segment before taxes amounted NIS 13 million, compared with a loss before taxes of NIS 8 million in 2014, a decrease of 63%.

The provision for tax on profit in the segment amounted to NIS 4 million, compared with NIS 2 million, an increase of 100%.

Customers – Cardholders

Credit cards issued by the Company serve customers in various segments, including private customers, employees of corporations and overall corporate procurement (Business-to Business – B2B) – transfer of payments between businesses.

As of the date of the report, no card-holder (bank or non-bank), whose rate of total transactions conducted in the Company's credit card was 10% or more of the total transactions in the Company's credit cards in 2015.

The Company is party to clearing agreements with merchants in a variety of sectors. As part of the clearing service, the clearing 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 cleared by the clearer when purchasing goods or services from the merchants will be settled by the clearer. The clearer accumulates debits for transactions executed in the credit cards, which are cleared by the clearer with a particular merchant that has signed a clearing 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. In addition to clearing services, the Company offers merchants various financial services, such as marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information and sales-promotion campaigns.

Products and services

The Company clears transactions with merchants which have executed agreements with it, executed using American Express cards, mainly against the collection of a merchant fee. As noted, Isracard administers and operates credit-card clearing activity on behalf of the Company. The Company also offers services, such as information regarding credits of the merchant, loans, discounting services for credit-card sales slips, advances and early payment services, flexible crediting dates and options for payments in installments, joint advertising campaigns, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants are allocated to the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, and financial income (net) which are allocated to the segment. The main expenses associated with this segment are recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 3 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.

Marketing and Sales

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

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

The Company operates a website at the address: www.americanexpress.co.il, designed for merchants that have clearing 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.

Profit and profitability – Issuance sector

The net profit of the segment amounted to NIS 49 million, compared with NIS 51 million in 2014, a decrease of 4%.

The rate of return of the net profit to average capital amounted to 92.2%, compared with a rate of return above 100% in 2014.

Development of income and expenses

The segment's income amounted to NIS 179 million, compared with NIS 173 million in 2014, an increase of 3%.

Income from fees amounted to NIS 177 million, compared with NIS 171 million in 2014, an increase of 4%.

Net interest income amounted to NIS 1 million, compared with NIS 3 million in 2014, a decrease of 67%.

Other income (expenses) before payments to banks amounted to NIS 1 million, compared with expenses of NIS 1 million in 2014.

Expenses of the segment amounted to NIS 111 million, compared with NIS 104 million in 2014, a decrease of 7%.

Income in respect of credit losses amounted to less than NIS 0.5 million, similar to 2014.

Operating expenses amounted to NIS 38 million, compared with NIS 32 million in 2014, an increase of 19%.

Sales and marketing expenses amounted to NIS 10 million, similar to 2014.

General and administrative expenses amounted to NIS 13 million in 2015, similar to 2014.

Payments to banks amounted to NIS 50 million, compared with NIS 49 million in 2014, an increase of 2%.

The ratio of expenses to income before payments to banks reached 34.1%, compared with 31.8% in 2014.

Profit before tax amounted to NIS 68 million, compared with NIS 69 million in 2014.

The provision for taxes on profit amounted to NIS 19 million, compared with NIS 18 million in 2014, an increase of 6%.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries. As at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2015.

Review of risks

General description of the risks and the way they are managed

Some of the information set forth in this chapter, although based on the processing of historical data, constitutes forward-looking information, as detailed in the chapter "Economic review: Goals and strategy".

The Company's activity is subject to financial risk, credit risk and other non-financial risks, which are mainly regulatory risks and operational risks. Additional risks to which the Company is exposed are dealt with directly as a part of the business management.

A. General description of the risks

Credit risk: The risk deriving from the possibility that a borrower / counterparty will not fulfill its obligations in accordance with the agreed conditions. A deterioration in the stability of the various borrowers is liable to have an adverse effect on the value of the Company's assets and profitability.

Market risk: This is the risk of a loss deriving from a change in the economic value of a certain financial instrument or portfolio, as a result of changes in prices, rates, indices, and margins and other parameters in the markets. The Company's business activity is exposed to market risks originating in the volatility in interest rates, exchange rates, the consumer price index and the value of securities.

Operational risk: An existing or future risk to the Company's income and capital, deriving from failed or deficient internal processes, human actions, system failures and external events.

Risks of data security and cybernetic incidents: The risk of information leakage events including sensitive business material and details of customers, as well as cyber attacks which are directed against the Company's infrastructure.

Legal risk: An existing or future risk to the Company's income and capital deriving from the absence of the possibility of legally enforcing the existence of an agreement. Impairment to the Company's activity deriving from an erroneous interpretation of a provision of a law or regulation, or the existence of a legal proceeding (such as class actions) conducted against the Company.

Regulatory risk: An existing or future risk to the Company's income and capital deriving from material changes in legislative processes and/or drafts of directives of various regulatory bodies, which provide restrictions on the Company's areas of activity and sources of income, or which impose obligations whose implementation is subject to significant costs to the Company.

Strategic risk: The risk of impairment to the Company's profit and capital, deriving from making erroneous business decisions, the improper implementation of business decisions and the non-performance or non-compliance of a work plan to changes in the business environment.

Liquidity risk: An existing or future risk to the Company's income and capital deriving from impairment in the ability to raise the liquid assets as a result of a loss of confidence of the market in the Company, which can materialize from events which impair goodwill, or impair the market in which the Company operates, and a risk caused as a result of an overall crisis in the markets leading to a credit crunch, which occurs regardless of the Company performance, and the risk of a fall in the value of liquid assets as a result of erosion in the value of the liquid assets, which are liable impair the corporation's ability to finance the liquidity gaps.

Reputational risk: Impairment to the Company's reputation as a stable and reliable credit card company among the customers, business partners and regulatory bodies is liable to lead to a diversion of customer activity to other companies, with impairment to the Company's activity and profitability. The risk derives from a negative image concept created for the Company among stakeholders and is liable to be created from a large number of factors, together or separately, (for example, a consumer claim, a system collapse, behavior deviating from the social and generally accepted norms, etc.).

Compliance risk and money laundering: This is the risk involving the non-compliance of the Company or any of its employees, in any place relevant to the Company's activity, the provisions of the law and regulations dealing with the relations of the customer's bank, securities laws, provisions regarding the prohibition of money laundering and financing of terrorism. The Company's policy in the area of compliance is to fulfill the requirements of the law and regulations in the area of compliance and the prohibition of money laundering.

B. Risk appetite

Risk appetite expresses the level of the corporation's preparedness, as reflected in its decisions, to assume risks as part of its business activity. The appetite for risk expresses the Company's desire to avoid risks and relates to the maximum loss it is prepared to absorb from its entire activity for the purpose of achieving its goals.

Risk capacity expresses the maximum exposure to risks which the Company is able to bear. Risk capacity is reflected, practically, in levels of available capital at the Company's disposal, which is available for the absorption of losses resulting from the materialization of risks to react quickly and effectively, and thus reduce the loss incurred from the realization of the risks, as aforesaid.

The risk appetite is demarcated by the limits for risk capacity, as the risk appetite expresses the degree of the risk which the Company wishes to bear in order to fulfill its business and strategic goals, without detracting from its ability to bear risks, both in the normal course of business and under stress scenarios.

A "declaration of risk appetite" demarcates, at the highest level, the corporation's risk profile and constitutes the guiding means defining the commitment to stand within the limits and influence the short-term and long-term strategic planning process. The declaration includes qualitative and quantitative definitions in relation to the level of exposure to risks which the Company will assume, a description of the individual risk limits and the relationship to events of zero tolerance (for example – in the area of money laundering and compliance). The risk appetite declaration constitutes a basis for establishing system of quantitative and qualitative limits in relation to each of the material risks to which the corporation is exposed.

The system of restrictions represents the basis for risk management processes intended to ensure the realization of the Company's risk appetite declaration without exceeding it.

The risk appetite is updated each year, according to the Company business and strategic goals and its risk capacity and is approved by the management and the Board of Directors.

Risk management principles

The Company implements the risk management principles in accordance with Proper Conduct of Banking Management Directive No. 310 "Risk management".

The Banking Supervision Department has provided in the Proper Conduct of Banking Management Regulations, related to risk management. The regulations set forth the various risks and establish basic principles for managing and controlling risks.

The Company adopts measures in accordance with the directives of the Banking Supervision Department regarding the Chief Risk Officer and the risk management function and implements the requirements of the directives.

The key principles for risk management are decisive rules standing at the basis if the overall risk management concept and the risk management core processes, and their aim to bring to realization the goals of the risk concept.

The implementation of these principles and the assurance of the update, along with their integration in the strategic decisions and business activity of the Group companies assures the consistency and completeness of the risk concept at the its various long-term stages of development.

Risk management includes, inter alia, processes of risk identification, risk assessment and the measurement of exposure to them, monitoring exposure to risk and the routine determination of appropriate consumers of capital, monitoring and assessment of decisions regarding the assumption of risk, determination of the means of mitigating risk and reporting to senior management and the Board of Directors. In addition, risk management includes a combined approach for the identification, assessment, monitoring, and management of all risk from a collective viewpoint.

The key principles for risk management are as follows:

- The Board of Directors supervises the work of the management in the area of risk management, subject to the provisions of the law.
- The management of the Company is the factor responsible for implementing decisions of the Board of Directors in the area of risk management.
- Every business unit and/or operational unit is responsible for the management of the risks created as a part of its day-to-day activity, including its qualification to make decisions in relation to the assumption of risks (subject to exposure restrictions).
- The organizational structure of the risk management and the risk management processes will give appropriate expression to the Company's corporate governance principles, and will contribute, in the best way, to the existence of a chain of effective supervision over their activity, subject to the provisions of the law.

- The risk management will be proactive and will operate proactively to deal with the various material risks to which the Group companies are exposed and will not suffice with providing a retrospective response to developments and events.
- Decision-makers on the subject of risk management will operate with an overall vision of the Company's best interests and not with partial-functional vision.
- The risks to which the Company is exposed will be managed while maintaining a separation between the risk-taking lines of business and the independent risk management function under the responsibility of the Chief Risk Officer (including the Risk Management, Compliance and Prohibition of Money Laundering department) and Internal Audit.
- The Company will fulfill continuous processes for identification, assessment and supervision of quantifiable and non-quantifiable material risks to which it is exposed, in order to ensure at any time that the material risks which it faces are identified and managed.
- For each of the material risks to which the Company is exposed a senior office-holder is appointed, at the status of a management member, who bears accountability in relation to risk.
- The chain of responsibility in relation to the risk management is built in a hierarchy, with each degree of management bearing responsibility for risks in its area of activity, such that aggregation of risk management in each area of management will be guaranteed, up to the member of management responsible for the risk.
- The concept of risk management supports the efficiency of the decision-making processes, and allows more educated decisions to be made by a wider business picture.
- The risk management concept encourages transparency in all matters related to authority, responsibility for assuming and managing risks in effective organizational internal communication, and in the flow of proper information to all factors involved in dealing with risks.
- The risk management process is dynamic and expected to develop over the long term according to the Company's varying needs, regulatory provisions, generally accepted practice in Israel and around the world and economic environmental conditions. Accordingly, it undergoes periodic examination, validation and refresher procedures in order to support the attainment of the Group companies' risk management concept.

Use of stress scenario tests

Stress scenarios are important tools for risk management. Stress scenarios are used by financial institutions as a complementary tool of identifying, measuring and monitoring risks in scenarios which depart from the normal course of business. and do not receive a solution through the tools and models routinely applied for risk management. The Banking Supervision Department promotes the use of stress scenarios as a part of adopting the Basel Directives and in the context of other regulations, including Proper Conduct of Banking Management no. 310, which provides that: "a banking corporation should use forward-looking stress scenarios as a complementary tool for risk management approaches based on complex quantitative models."

The stress scenarios are used in order to identify exposures to risks which are not prominent in the ordinary course of business, to examine the effect of stress conditions on the Company's positions, to warn the management of serious unexpected results related to the variety of risks, and they provide an indication as to the capital required to absorb the losses in cases of major shocks.

The financial institution, alternatively, is likely to take other steps in order to help mitigate the ever-increasing level of risk of the realization of the stress scenario.

The main uses of stress tests are:

- Capital planning and liquidity
- Examination of the Company's risk appetite
- Identification of existing and potential credit concentrations
- Development of tools to mitigate risks and plans for business continuity.

The Company examines a series of scenarios and stress scenarios as part of the routine risk management process to assess the exposure to credit, operational, market and liquidity risk. These scenarios are also used in the context of the process of assessing the capital adequacy for the assessment of the capital requirements against the various risks.

C. The following information on risks according to the Third Pillar disclosure requirements and additional information on risk may be found in the report on risks which is published on the Company's website.

Credit risk

Credit risk is the possibility that borrowers or counterparties may default on their obligations under the agreed terms.

Credit risk is one of the risks which is managed, monitored and controlled in the Company, as required by the nature of its activity as a company engaged in the provision of credit. The credit risk management process assists the Company to view the risk according to the mix of products of which it is composed.

Pursuant to the directives of the Banking Supervision Department regarding the measurement and disclosure of impaired debts, credit risk and provision for credit losses and the amendment of directives regarding the treatment of problem debts, since January 1, 2014, the Company has applied the provisions of Proper Conduct of Banking Management Directive No. 311 "Credit Risk Management" which focuses on the adoption of the approach in which the involvement of an independent factor is required in the business units, in supporting proper credit decision-making, taking into account and being involved in the formulation of the credit policy, classification of problem debts and the approval of material credit exposures.

The Company has an independent credit control unit which is subject to the Chief Risk Officer in accordance with the requirement of the Proper Conduct of Banking Management Directive No. 311 which states that, effective April 1 2015, the credit control unit will operate, subject to the chief risk officer of the banking corporation or credit card company, or any other factor not dependent on the business units or the board of directors.

The Company routinely invests resources into training its employees which engage in decision-making, assessment of risk in credit and improvement of control through tools and computerized information systems at their disposal.

The organizational structure for credit risk management includes the corporate governance and three rings of control. The concept guiding the credit risk management in the Company is that the risk-taker is directly responsible for managing the risk. The Chief Risk Officer is an independent factor. However, his responsibility does not make redundant the responsibility of the Credit and Finance Section for exercising control in relation to the risks under its responsibility, through the Credit Control and Operations Department, which constitutes a control factor exercising overall control in the credit risk management process as part of the first ring of control.

The first circle of control includes the business units which assume the credit risks and are responsible for the day-to-day management of those risks and departments which are in the interface with the creation of the risk. The business departments in the Credit Section which deal with the provision of credit are responsible for monitoring the credit.

The second circle of control includes the Chief Risk Officer and the Risk Management Department, who operate independently and autonomously in the business departments. The second ring of control is responsible for formulating quantitative tools methodology for assessing exposure to credit risks, formulating recommendations to the Board of Directors regarding credit risk policy and independently assessing and reporting the Company's credit risk profile.

The Chief Risk Officer is an independent factor, who stands at the head of the second ring of control, which constitutes an independent management and control function over credit risks and the way in which they are managed. The main areas of responsibility of the Chief Risk Officer in the management and control of credit risks are as follows:

Formulation of credit policy – The Chief Risk Officer is responsible for assisting the CEO in formulating the credit policy document, in cooperation with all the relevant factors in the Company, particularly the business line managers.

Involvement in the procedure for approving credit exposures – The Chief Risk Officer is a member of the Credit Committee headed by the CEO and the Sector Credit Committee (as an observer), and he is involved in the process of approving material credit exposures for the Company.

Formulation of recommendations on the rate of collective allowance for credit losses – The Chief Risk Officer is responsible for formulating recommendations regarding the rate of collective allowance for credit losses, through the Risk Management Department and according to the methodology determined by the Company.

Credit risk management control – The Chief Risk Officer is responsible for credit management control activity exercised by the Risk Management Department.

The third ring of control includes the Internal Audit, which is an independent factor, reporting to the Board of Directors and conducting periodic and routine audit on the method of risk management and the correctness of procedures carried out by the various factors in the Company. The Internal Audit operates in accordance with the audit plan approved by the Audit Committee of the Board of Directors, and submits audit reports for its review, as required by the provisions of the relevant regulations.

Activity of the Company in the area of credit-risk management:

The Company operates according to the credit policy document approved by the management and the Board of Directors.

The Company sets limits on the granting of credit, by risk rating, with segmentation by credit products (according to the products' risk weighting), in order to prevent damage to the quality of the Company's credit portfolio, thereby reducing credit risk arising from borrower quality.

The Company conducts internal controls of credit-risk management by assigning a risk weighting to each type of credit product, according to its derived risk. For example, in certain cases, references are made to the type of product sold by the merchant and to its supply times; the longer the supply time of the product, the higher the probability of a failure to deliver the product to the customer.

The Company sets sectoral limits in order to prevent sectoral concentration in the credit portfolio.

The Company acts in accordance with the guidelines of the Bank of Israel in Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers." Applying this directive and setting internal limits reduces borrower concentration risk.

The Company has set internal limits on its exposure to financial institutions, in congruence with the risk appetite which is approved by the Board of Directors.

The Company monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Proper Conduct of Banking Business Directive No. 815.

Principles of Credit Concentration Risk Management:

In accordance with the Second Pillar of the Basel provisions, the Company calculates an internal capital allocation, as required, against concentration risks.

Borrower concentration – routine monitoring of the major borrowers of the Company; compliance with limits required in Proper Conduct of Banking Business Directive No. 313 ("A Single Borrower and a Group of Borrowers ") of the Bank of Israel. In addition, the Company reports to the Bank of Israel on a quarterly basis, in accordance with the directive.

Diversification over a range of credit products – the Company's credit portfolio consists of a variety of credit products with differing risk levels. Credit products are: credit through credit cards, loans through credit cards, loans to private individuals, loans to merchants, advance payments and prepayments to merchants.

Determination of risk rating for customer according to statistical models:

The Company's credit risk management is based on several statistical models which are used to establish a rating for each customer or merchant. This rating is used to support decisions regarding the type of credit, the volume of credit and the interest rate set for the customer or merchant. The models are periodically tested for quality and calibration and are established in accordance with internal and regulatory requirements.

The Company routinely invests in models for rating the credit risk of private and business customers. The models are matched to the credit products, economic conditions, and target population to receive the credit.

The models may be divided as follows:

AS (application scoring) model for new customers;

BS (behavior scoring) model – a behavioral model for customers of the Company;

SME (small-medium enterprise) model – a model for corporate clients.

The risk-rating models are used to support decisions regarding the type of credit, volume of credit, and interest rate set for the customer or merchant.

The development of risk ratings in the credit portfolio is routinely controlled and monitored.

The models are tested periodically for quality and calibration by the Model Development Unit in the Credit and Financing Services Division, and validated by the Risk Management Department (the second level of controls).

Credit policy

The Company's credit policy is approved at least once a year by the Company's Board of Directors.

The credit policy is adapted to Proper Conduct of Banking Management Directive No. 311, and the Chief Risk Officer is responsible for assisting the CEO in formulating the credit policy document, in cooperation with all the relevant entities in the Company, particularly the business line managers.

The credit policy relates to the principles for extending credit, to the type of exposure in each of the activity segments, to the exposure restrictions, both quantitative and qualitative, to credit concentrations, to pricing and collateral, to dealing with customers in difficulties, to the hierarchy of credit authorities, to determining criteria for the extension of credit, etc.

Determination of hierarchy of authorities in the extension of credit

The determination of a hierarchy of authorities to maintain the quality of the Company's credit portfolio, while supervising the credit approvals in accordance with the appropriate professional authority. The extension of credit in the Company is executed by a hierarchy of authorities, including:

- Approving maximal exposure according to the authority of the responsible entity (in accordance with the risk-rating model)
- Defining spillover authorities for unusual transactions according to the authority of the responsible entity
- Defining a hierarchy of authorities in the determination of credit interest

Problematic credit risk and non-performing assets

The Company implements the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and allowance for credit losses."

On February 10, 2014, the Supervisor of Banks published a circular concerning an update of disclosure of credit quality of debts and of the allowance for credit losses in credit card companies. The balances are presented below pursuant to the aforesaid circular.

Table 6 - Problematic credit risk and nonperforming assets

	Balance as at December 31, 2015	Balance as at December 31, 2014
	NIS millions	
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	2	2
Inferior credit risk	2	1
Credit risk under special mention	7	5
Total problematic credit risk	**11**	**8**
Of which: Unimpaired debts in arrears of 90 days or more	-	-
2. Nonperforming assets (2)		
Impaired debts	2	2
Total nonperforming assets (2)	2	2

(1) Credit risk - impaired, inferior or under special mention.

(2) Credit risk is presented before the affect of the allowance for credit losses.

(3) The Company has no off-balance sheet problematic credit risk.

Table 7 – Movement in impaired (1) debt balances **

	Year ended December 31, 2015					
	Private individuals		Commercial			
	Debtors in respect of credit cards	Credit (2)	Debtors in respect of credit cards	Credit (2)	Credit risk under bank guarantee and other (3)	Total
	NIS millions					
Balance of impaired debts as of December 31, 2014	**1**	**-**	**-***	**-***	**-**	**1**
Balance of debts classified as impaired	-*	-	-*	-*	-	-*
Balances of debts written off classified as impaired	-	-	-	-	-	-
Balance of impaired debts written off	(1)	-	(-*)	(-*)	-	(1)
Balance of impaired debts collected	(-*)	-	(-*)	-(4)	-	(-*)
Balance of impaired debts as of December 31, 2015	-*	-	-*	-*	-	-*

* Amount less than NIS 0.5 million.

** Individually examined.

(1) Debtors in respect of activity in credit cards, bank deposits and other debts.

(2) Interest-bearing credit – not for credit which is not to credit-card holders and other transactions.

(3) Debtors and credit in respect of credit cards under bank guarantee, bank deposits, companies and international credit card organizations, income receivable and other debtors.

(4) Collection from merchants is executed through the offset of new vouchers recorded in the system.

Table 8 – Risk and credit metrics

		December 31	
		2015	2014
		In percent	
A.	Balance of impaired debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit card activity	0.09	0.10
B.	Balance of unimpaired debtors in respect of credit card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit card activity	-	-
C.	Problematic credit risk as a percentage of total credit risk	0.09	0.08
D.	Credit loss expenses as a percentage of the average balance of debtors in respect of credit card activity	0.29	0.05
E.	Net write-off in respect of debts in respect of credit card activity as a percentage of the average balance of debtors in respect of credit card activity	0.19	0.05
F.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of debtors in respect of credit card activity	0.56	0.56
G	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors individually examined in respect of credit-card activity	- *	- *
H.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity with the addition of the balance of debtors in respect of credit card activity which is in arrears for 90 days or more.	- *	- *
I.	Net write-offs for debtors in respect of credit card activity as a percentage of the allowance for credit losses for debtors in respect of credit card activity	30.77	9.09

* Greater than 100%.

Credit quality

A state of arrears is routinely monitored and represents one of the main indications for credit quality. A state of arrears affects the classification of debts assessed on a collective basis (the deeper the arrears, the more serious classification). After 150 days of arrears, the Company writes the debts off its books.

Credit risk in respect of exposures to borrower groups

Pursuant to Proper Conduct of Banking Management Directive No. 313, regarding "Restrictions on the Indebtedness of a Borrower and of a Group of Borrowers", there is no group of borrowers which exceeds 15% of the Company's capital (as defined in Regulation no. 313) as of December 31, 2015.

Credit exposure to foreign financial institutions and foreign countries

The Company has immaterial exposure to the international organization American Express Ltd. with respect to balances of transactions executed by tourists in Israel, net of the balances of transactions executed by Israelis overseas in respect of which the Company has not yet been credited by the international organization.

For detailed information on credit risk in accordance with the Tier 3 disclosure requirements and further information on the risks, see Report on Risks, which is published on the Company's website.

Market risk

Market risk is the risk of a loss arising from a change in the economic value of a certain financial instrument or portfolio, as a result of changes in prices, rates, indices and margins and other parameters in the markets.

The Company's business activity is exposed to market risks originating in fluctuations in interest rates, exchange rates, in the consumer price index and the value of securities.

The Company's market risk management policy is based on generally accepted practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") regarding market risk management, and Proper Conduct of Banking Business Directive No. 339, "Market and Interest Rate Risk,", and Proper Conduct of Banking Business No. 333 "Interest Risk Management", adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in May 2015. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and interest rates, the CPI, foreign exchange rates, and shares. The Board of Directors of the Company updates these limits from time to time.

The market risk management philosophy corresponds to the Company's market risk management policy.

The Risk Management Department acts as a designated function for the management and control of risks, independent of the business factors. The department maintains control over market risks in the Company; its roles are defined in designated policy documents.

The Company manages market risks based on a comprehensive, integrative view, for the Company. Market risks at the Company are managed by the Head of Finance and Administration.

In order to implement the requirements of its market risk management policy, the Company uses a targeted automated asset and liability management system. The Company believes that its exposure to market risks is immaterial

Details of the various risks are as follows:

A. Linkage Base Risk

This risk is defined as exposure to currencies and to the consumer price index, expressed as the loss that may occur as a result of the effect of changes in currency exchange rates 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 market risks in Israeli and foreign currency.

B. Interest-Rate Exposure

Interest-rate risk is the exposure to damage to the capital of the Company as a result of changes in interest rates in the various markets.

This exposure arises from, among other factors, the gap between maturity dates and dates of interest calculations for 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 are performed on a monthly basis.

Interest-rate exposure exists primarily in the shekel segment, as this segment contains assets with fixed interest rates.

C. Exposure to the value of securities

The Company's policy establishes a limited possibility for the execution of transactions in fixed-income, low-risk securities. No transactions in securities were entered into during the year.

D. Derivative financial instruments

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

The only activity in derivative financial instruments permitted for the Company is for the purposes of economic hedging. No transactions in derivative financial instruments were entered into during the year.

Interest exposure management

Exposure is monitored using reports on the impact of changes in interest. In the event of identifying a departure from the established restrictions, exposure is reduced by: examining the activities of providing fixed interest credit and examining the possibility of hedging transactions.

The financial activity of the Company is usually characterized by a parallel between the average duration of assets and liabilities (mainly short-term); i.e. customers' activity ("debtors in respect of credit cards") versus liabilities to merchants ("creditors in respect of credit-card activity"). However, there is exposure to changes in interest rates arising from extending credit at fixed interest for the medium term (usually up to one year, and sometimes up to three years), which creates a gap in duration.

Foreign Currency Exposure Management

Transactions are hedged using financial instruments at banks. The Company's policy is to bring foreign currency exposure to zero.

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day. However, immaterial exposures form as a result of differences in timing between the transaction date and the settlement date in foreign-currency transactions. The Company monitors these differences.

In order to control and manage market and liquidity risk, the Financial Management Unit in the Finance Department under the authority of the Chief Market and Liquidity Risk Officer, in practice, adopt procedures to identify, measure, monitor and report on the market and liquidity risks, on a routine basis.

Structure and organization of the market risk management

The market risk management system of the Company is based on an integrative system for the management of exposures, composed of the following functions:

Market Risk Manager (VP Finance and Administration)

The Market Risk Manager is responsible for the implementation and assimilation of a comprehensive policy for the management of all market and liquidity risks to which the Company is exposed (currency, CPI, interest rate, securities, liquidity), including:

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.
- Procedures for monitoring and control on matters related to exposure management.
- Monthly reports on market and liquidity risk to the Board of Directors.
- Management of foreign currency risks, including decisions regarding hedging of long-term foreign currency exposures.
- Asset and liquidity management (ALM).
- Routine measurement and control of the market and liquidity risk indices of the Company.
- Preparation of reports on interest-rate risks.
- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

Chief Risk Officer

The Chief Risk Officer of the Company is responsible, by virtue of his position, among other matters, for control of the market and liquidity risks of the Company.

Within this framework, he is responsible for controlling the Company's market risk management policies and processes.

For detailed information on market risk in accordance with the Third Pillar disclosure requirements and further information on the risks, see Report on Risks, which is published on the Company's website.

Table 9 - Fair value of financial instruments of the Company, excluding non-monetary items

	December 31, 2015				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	2,758	11	69	6	2,844
Financial liabilities	2,437	11	61	5	2,514
Net fair value of financial instruments	**321**	**(-*)**	**8**	**1**	**330**

	December 31, 2014				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	2,316	9	66	5	2,396
Financial liabilities	2,043	9	57	2	2,111
Net fair value of financial instruments	**273**	**(*-)**	**9**	**3**	**285**

Table 10 - Effect of hypothetical changes in interest rates on the net fair value of financial instruments of the Company, excluding non-monetary items

	December 31, 2015						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	323	(*-)	8	1	332	2	0.6
Immediate parallel increase of 0.1%	321	(*-)	8	1	330	*-	
Immediate parallel decrease of 1%	319	(*-)	8	1	328	(2)	(0.6)

	December 31, 2014						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	274	(*-)	9	3	286	1	0.4
Immediate parallel increase of 0.1%	273	(*-)	9	3	285	*-	-
Immediate parallel decrease of 1%	272	(*-)	9	3	284	(1)	(0.4)

* Amount lower than NIS 0.5 million.

* "Net fair value of financial instruments" presented in each linkage segment is the net fair value in that segment, assuming that the change noted has occurred in all interest rates in that linkage segment. The total net fair value of financial instruments is the fair value of all financial instruments (excluding non-monetary items), assuming that the change noted has occurred in all interest rates in the entire linkage segment.

*** Including Israeli currency linked to foreign currency.

Table 11 – Exposure of the Company to changes in interest rates as of December 31, 2015

Reported amounts

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**years**
Unlinked Israeli currency										
Financial assets:										
Financial assets*	1,853	439	407	61	-	-	(2)	2,758	1.20	0.14
Total fair value	1,853	439	407	61	-	-	(2)	2,758	1.20	0.14
Financial liabilities:										
Financial liabilities	1,382	496	431	102	19	-	7	2,437	1.44	0.22
Total fair value	1,382	496	431	102	19	-	7	2,437	1.44	0.22
Net financial instruments										
Exposure to changes in interest rates in the segment	471	(57)	(24)	(41)	(19)	-	(9)	321		
Accumulated exposure in the segment	471	414	390	349	330	330	321			
Linked Israeli currency										
Financial assets	2	4	5	-*	-	-	-	11	0.35	0.27
Total fair value	2	4	5	-*	-	-	-	11	0.35	0.27
Financial liabilities:										
Financial liabilities	2	4	5	-*	-	-	-	11	0.35	0.26
Total fair value	2	4	5	-*	-	-	-	11	0.35	0.26
Net financial instruments										
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	-*	-	-	-	(-*)		
Accumulated exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)			

* Amount lower than NIS 0.5 million.

Table 11 – Exposure of the Company to changes in interest rates as of December 31, 2015 (contd.)
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets	80	(6)	1	-	-	-	-	75	0.36	0.03
Total fair value	80	(6)	1	-	-	-	-	75	0.36	0.03
Financial liabilities:										
Financial liabilities	59	4	2	-	-	1	-	66	1.75	0.19
Total fair value	59	4	2	-	-	1	-	66	1.75	0.19
Net financial instruments										
Exposure to changes in interest rates in the segment	21	(10)	(1)	-	-	(1)	-	9		
Accumulated exposure in the segment	21	11	10	10	10	9	9			
Overall exposure to interest rate changes										
Financial assets:										
Financial assets	1,935	437	413	61	-	-	(2)	2,844	1.19	0.13
Total fair value	1,935	437	413	61	-	-	(2)	2,844	1.19	0.13
Financial liabilities:										
Financial liabilities	1,443	504	438	102	19	1	7	2,514	1.44	0.22
Total fair value	1,443	504	438	102	19	1	7	2,514	1.44	0.22
Net financial instruments										
Exposure to changes in interest rates in the segment	492	(67)	(25)	(41)	(19)	(1)	(9)	330		
Accumulated exposure in the segment	492	425	400	359	340	339	330			

Table 11 – Exposure of the Company to changes in interest rates as of December 31, 2014
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Unlinked Israeli currency										
Financial assets:										
Financial assets	1,525	378	352	61	-	-	-*	2,316	1.29%	0.14
Total fair value	1,525	378	352	61	-	-	-*	2,316	1.29%	0.14
Financial liabilities:										
Financial liabilities	1,127	420	379	98	17	-	2	2,043	1.50%	0.23
Total fair value	1,127	420	379	98	17	-	2	2,043	1.50%	0.23
Net financial instruments										
Exposure to changes in interest rates in the segment	398	(42)	(27)	(37)	(17)	-	(2)	273		
Accumulated exposure in the segment	398	356	329	292	275	275	273			
Linked Israeli currency										
Financial assets:										
Financial assets	2	3	4	-*	-	-	-	9	1.21%	0.26
Total fair value	2	3	4	-*	-	-	-	9	1.21%	0.26
Financial liabilities:										
Financial liabilities	2	3	4	-*	-	-	-	9	1.21%	0.25
Total fair value	2	3	4	-*	-	-	-	9	1.21%	0.25
Net financial instruments										
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	-*	-	-	-	(-*)		
Accumulated exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)			

* Amount lower than NIS 0.5 million.

Table 11 – Exposure of the Company to changes in interest rates as of December 31, 2014
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets	78	(7)	-*	-*	-	-	-	71	0.14%	0.03
Total fair value	78	(7)	-*	-*	-	-	-	71	0.14%	0.03
Financial liabilities:										
Financial liabilities	53	3	1	-*	-	2	-	59	1.82%	0.24
Total fair value	53	3	1	-*	-	2	-	59	1.82%	0.24
Net financial instruments										
Exposure to changes in interest rates in the segment	25	(10)	(1)	-*	-	(2)	-	12		
Accumulated exposure in the segment	25	15	14	14	14	12	12			
Overall exposure to interest rate changes										
Financial assets:										
Financial assets	1,605	374	356	61	-	-	-*	2,396	1.28	0.14
Total fair value	1,605	374	356	61	-	-	-*	2,396	1.28	0.14
Financial liabilities:										
Financial liabilities	1,182	426	384	98	17	2	2	2,111	1.51	0.23
Total fair value	1,182	426	384	98	17	2	2	2,111	1.51	0.23
Net financial instruments										
Exposure to changes in interest rates in the segment	423	(52)	(28)	(37)	(17)	(2)	(2)	285		
Accumulated exposure in the segment	423	371	343	306	289	287	285			

* Amount lower than NIS 0.5 million.

Liquidity and financing risk

The goal of the liquidity risk management process, taking into account the risk tolerance that has been established, is to ensure the Company's ability to finance the increase in its assets and to meet its liabilities when due, without falling into difficulties and without incurring material losses, including losses that may result from damage to goodwill caused by an inability to finance the Company's business operations.

Liquidity risk includes the following risks:

- Liquidity-raising risk – Risk arising from damage to the Company's ability to raise liquidity, as a result of a loss of confidence in the Company by the market, which may result from events of damage to its goodwill or damage to the market in which the Company operates.
- Market liquidity risk – Risk arising from a comprehensive crisis in the markets, leading to a credit crunch, regardless of the Company's performance.
- Risk of impairment of liquid assets – Exposure to risk as a result of erosion of the value of liquid assets, which may damage the ability of the corporation to finance liquidity gaps.

The Company implements a comprehensive liquidity risk management policy, which was approved by the Board of Directors in May 2015. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") and Proper Conduct of Banking Business Directive No. 342 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

This policy is achieved by maintaining routine monitoring of the Company's liquidity position through the use of an internal liquidity risk management model, monitoring indicators to identify liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current cash flow management. Liquidity risks at the Company are managed by the VP of Finance and Administration.

On September 28, 2014, a circular was published by the Banking Supervision Department on the topic of Proper Conduct of Banking Management Directive no. 221 "Liquidity Coverage Ratio", which adopts the Recommendations of the Basel Committee regarding liquidity coverage in the banking system in Israel. At this stage, credit card companies are not required to comply with the circular and they will continue to meet the requirements of Proper Conduct of Banking Management Directive no. 342. Further, credit card companies will be required to comply with a regulatory quantitative model which will be adapted for the characteristics of their activity.

The Company implements a liquidity risk management policy in accordance with Proper Conduct of Banking Business Directive No. 342, including compliance in relation to minimum liquidity, which is intended to ensure that the Company has an inventory of high-quality liquid assets providing a solution to the Company's liquidity requirements in a time-horizon of 30 days in stress scenarios. The stress scenarios include a specific shock to the Company, a systemic shock and a combination of the two.

The Board of Directors once a year determines the risk capacity in light of the management's recommendations, expressed through establishing risk exposure restrictions and the financing strategy. The risk capacity is determined in accordance with the Company strategic plans, business policy and the state of the markets. In 2015, the Company complied with the restrictions of the Board of Directors, as well as those derived from Proper Conduct of Banking Management Directive No. 342.

The Company finances its day-to-day operations through short-term daily bank (on-call) loans from and cash flows from operating activities.

In order to retain the variety of the sources of finance, the Company is meticulous in varying the utilization of the means of finance through taking on-call finance from a number of banks and using various sources of fiancé each time, as applicable, in order to ensure the stability of the sources of finance and also so that these sources will be at the Company's disposal even at times of liquidity pressures, as far as possible. In addition, the Company has a secured line of liquidity from banking institutions.

In addition, the Company exercises regular monitoring of the mix of the sources of finance by monitoring a number of restrictions established to ensure a fair dispersal of the sources of finance.

For further details regarding assets and liabilities according to linkage basis and according to maturity dates, see Notes 20 and 21 to the financial statements.

Operating Risk

Within operating risk management, the organizational structure supporting the management of operating risks has been defined, including the roles of the Board of Directors and the Management Committee on Risk Management headed by the CEO.

As part of the management and control of operating risks, and as part of the compliance with Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") in this area, the following steps are taken:

- ♦ Operating risks are identified in new processes and products.
- ♦ Appropriate controls are established.
- ♦ Operational risk management and control systems are regularly updated.
- ♦ Business continuity and emergency preparedness plans are established.
- ♦ Emergency procedures at the Company are revised.

The operational risk managers are members of Management in the Company, each with regard to the area for which he or she is responsible. The VP Head of Risks and Security in the Company is responsible for independent supervision of risk management in the Company (second level). The management of operational risks in the Company is intended to minimize losses by establishing orderly processes aimed at reducing the operational risks to which the Company is exposed. In this process, authority and responsibility frameworks are established, and a culture of operational risk management is instilled in all managers and employees.

The Company has determined a policy for the management of operational risks, in compliance with Proper Conduct of Banking Management Directive No. 350 of the Bank of Israel.

The Company has policy for managing operating risks, including the following goals:

- To manage operational risks as an integral part of the working processes in the Company, including the introduction of new products and processes.
- To maintain effective controls of risks according to risk ratings.
- To ensure effective identification of operational risks in all of the main processes at the Company.

- To create a work culture that encourages an organizational culture of risk management.
- To report loss events on a regular basis, according to the rules defined in the policy.
- To comply with legal and regulatory requirements regarding operational risks.
- To manage and allocate capital optimally in respect of operational risks.
- To establish a business continuity and emergency preparedness plan.

For further details in operating risk, pursuant to the Third Pillar disclosure requirements and further information on risks may be found in the Report on Risk published on the Company's website.

Other risks

Data security risks and cyber events

In September 2015, the Bank of Israel published Proper Conduct of Banking Management Directive No. 361 regarding the management of cyber protection. The directive includes the basic principles for managing cyber protection, and among other things, the directive sets forth the requirement to maintain process for the management of cyber risks. In recent years, the Company has invested considerable resources in this area, and with the publication of the directive, the Company is prepared with a plan of action agreed by the management, to integrate the requirements in the new directive in the Company, in addition to the other provisions to which it is subject on this issue. For example, business continuity, risk management, all in accordance with the clarifications given by the Bank of Israel relating to the method and dates of implementation.

Cyber attacks may result from intentional attacks or from unintentional events. Cyber attacks include inter alia, obtaining unauthorized access to computerized systems with the aim of making illegal use of assets or of sensitive information, damaging information, or disrupting activity. Cyber attacks may be carried out in a manner that does not require obtaining unauthorized access, such as in the case of attacks designed to shut down website services.

The Company takes routine steps to locate and prevent events involving leakage of information, including sensitive business material and customer details, and also operates to locate and prevent cyber attacks which are directed against the Company's infrastructure.

Regulatory risk

Regulatory risk is the risk of impairing the Company's income and/or capital caused as a result of material changes in the legislative processes and/or draft provisions of various regulatory bodies, which establish restrictions on the Company's areas of operations and sources of finance, or impose obligations whose implementation involve significant costs, and thus, are liable to adversely affect its profitability, This risk is in essence forward-looking, as it relates to the risk inherent in potential significant changes in legislation and regulations.

Management of regulatory risk is based on a policy document formulated on this subject and approved by the management and Board of Directors.

The process of identifying regulatory risk includes two main aspects:

A periodic process to identify risks – based on mapping the relevant expected regulations and monitoring changes in relation to the reasonableness of the materialization of the risk.

A process of identifying risks arising from the possible implications of expected regulations when launching new products or activities.

On the basis of the process of identifying the regulatory risks, for each risk identified a level of materiality will be subjectively established, taking into account the scope of its impact on the Company's activity. For a risk factor which is determined to be material, an assessment of the exposure to the risk will be made from quantitative and qualitative aspects, as applicable.

In order to reduce exposure to regulatory risk, the Company takes the following steps:

Formulate plan of action – for the scenarios formulated on the basis of the main regulatory risk factors identified, and assessed as material by the regulatory risk officer.

Activity as part of the formulating the regulations – The Company deals with the process of formulating the relevant regulations, by giving a response to the publication of the draft of the regulatory provisions, committees of regulatory authorities and the presentation of the Company's position in relation to the outline regulations to the appropriate factors.

Legal risk

The risk of a loss as a result of the lack of a possibility of legally enforcing the existence of an agreement, impairment to the Company's activity arising from erroneous interpretation of a provision of a law or regulation, or the existence of a legal proceeding (such as a class action) conducted against the Company, or whose results are liable to adversely affect the Company's activity or financial position.

The Company has adopted a conservative policy in relation to the linking of agreements and legal obligations, taking care over proper engagement processes from a legal perspective and conduct in business activity, with assistance and appropriate legal back-up.

The management of legal risk is based on a policy document formulated by the management and the Board of Directors.

As part of the risk management, a number of activities are conducted which are intended to ensure that all of the risk factors and their characteristics will be identified in relation to each product and activity of the Company, so that the possibility in which the Company will be in a position of exposure to a risk which has not been identified or only partly identified will be prevented.

The process of identifying legal risks includes two main aspects:

A periodic process of identifying legal risks, the results of which will be anchored in the metrics of the legal risk factors (as part of the ICAAP process)

Individual identification of risks when launching a new product or activity

The Legal Counsel Department is the factor responsible for assessing exposure to legal risks in relation to risk factors, by means of data, in relation to legal claims, periodically transferred from the Customer Complaints Department, and the routine reports of the various areas in the Company. Exposure to legal risks is assessed in the following way:

An assessment of the exposure to legal claims is made taking the following factors into account:

- The degree of exposure to the risk – for example, the amount of a claim submitted against the Company, the probability for the materialization of the risk – the likelihood of the success of the claim against the Company.
- Once a quarter, a quantitative examination of the loss expected in respect of the realization of legal risk is made, against the levels of the warning thresholds determined. This examination enables control to be exercised over the management of the Company's activity in the various areas in respect of which legal claims have been submitted.

The Legal Counsel Department uses tools to mitigate the risk, for example: employing consistent legal formulas, approving legal agreements of special transactions, monitoring legal processes, meetings of the management and the Board of Directors, etc.

Reputational risk

Reputational risk is the risk of a material impairment to the Company's income or capital as a result of a perception a negative image created for the Company among stakeholders. The perception of a negative image can be created from a large number of factors, together and individually, (for example: a consumer claim, a systems collapse, behavior exceeding social and generally accepted norms, etc.).

Reputational risk is characterized by the fact that it is likely to arise from direct risk factors or as a result of the realization of other risks.

The management of reputational risk is based on a policy document formulated on the subject and approved by the management and the Board of Directors.

The process of identifying reputational risks includes three main aspects: an annual process for identifying reputational risks, individual identification of risks when launching a new product and a survey of operational risks in relation to the various activities.

In order to mitigate the damage as a result of the realization of reputational risks, monitoring processing have been implemented enabling early identification of potential risks and adopting measures to mitigate the risks, using risk-mitigation tools, for example: meeting of the management and the Board of Directors, monitoring developments in the credit card market, training programs, reports, etc.

As part of the risk management, the Chief Risk Officer submits reports to the management and the Board of Directors.

Strategic risk

Strategic risk is the risk of impairment to the Company's income and capital as a result of erroneous business decisions, the improper implementation of business decisions and the execution of non-compliance of the work program to changes in the business environment. Strategic risk is influenced by both external and internal risk factors. The external risk factors include the business/competitive environment in which the Company operates and internal risk factors include factors within the organization which may result in the Company not complying with its business plan.

The Company's strategic goals will be determined taking into account risk appetite and the capital targets, via capital planning.

Identification of the risk focal points is a term relating to all activities, which are intended to ensure that the risk focal points will identified, in relation to the Company's business activity, such that the possibility that the Company will be in a position of exposure to a risk which has not been identified or only partly identified, will be prevented.

Identification of the strategic risk focal points will be made via an annual process to identify the strategic risk focal points and by identifying the risks when launching a new product or activity.

The management, via the Strategic Unit Manager, is responsible for assessing the exposure to strategic risks as they have been identified in the risk identification processes and a subjective assessment of the impact on the work plan, taking into account, inter alia, measures adopted by the Company to mitigate the risk. The exposure assessment process will be carried with the support of the relevant factors in the Group.

Further information on the risks pursuant to the Third Pillar disclosure requirements and further information on risk may be found in the Report on Risks, which is published on the Company's website.

Table 12 – Discussion of risk factors

Mapping of the main risk factors to which the Company is exposed. The mapping, the assessment of the risks and their impact, is a subjective assessment of the Company management.

		Impact of risk			
		Low	Low-medium	Medium	High
	Financial risks				
1.	Credit risk			✓	
1.1	Risk in respect of quality of borrowers and/or collateral			✓	
1.2	Risk in respect of sector concentration			✓	
1.3	Risk in respect of concentration of borrowers / group of borrowers	✓			
2.	Market risk	✓			
2.1	Interest risk	✓			
2.2	Inflation risk / exchange rate risk	✓			
3	Liquidity risk and finance		✓		
	Operational and legal risks				
4.	Operational risk			✓	
5.	Legal risk			✓	
	Other risks				
6.	Reputational risk		✓		
7.	Regulatory risk			✓	
8.	Strategic risk			✓	
9.	Data security risk and cyber events			✓	

Accounting policy and critical estimates, controls and procedures

Accounting policy and critical estimates

The financial statements of the Company are prepared in conformity with generally accepted accounting principles in Israel and in accordance with the directives and guidelines of the Banking Supervision Department, the main points of which are set forth in Note 2 to the Financial Statements, "Reporting principles and significant accounting policy". 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 Company's reported results.

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 are made to the best of its knowledge and professional judgment, as at 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 Offers (Points Program) for Credit-Card Holders

In 2015, the Company split the points program into two plans.

A plan for holders of Premium-type cards and a plan for all other types of cards.

The balance of the liabilities in respect of the program is calculated on an economic basis and matches the methodology existing in the Company prior to the split of the plans into two separate plans.

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain an allowance, in a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual allowance” and “collective allowance.” The Company also examines the overall fairness of the allowance for credit losses.

Contingent Liabilities

The Management of the Company includes sufficient provisions in the financial statements, to the extent necessary, to cover possible damages arising from all legal claims, based on legal opinions. In most legal proceedings, external legal counsel is obtained. These assessments by legal advisors are based on the best of their judgment, taking into consideration the stage reached by the proceedings.

It should be taken into account that in the legal field, “certain” or “near certain” estimates cannot be made, not only in the initial stages of the claim, but until a ruling is handed down. Accordingly, the outcome of the proceedings may differ from the estimates performed. In light of the foregoing, the actual outcomes of legal claims may differ from the provisions that have been made.

Employee rights

On April 9, 2014, the Banking Supervision Department published a circular regarding the adoption of U.S. generally accepted accounting principles in relation to employee rights. The circular updates the recognition, measurement and disclosure requirements regarding employee benefits in the Public Reporting Directives generally accepted in banks in the United States. The circular provides that the amendments to the Public Reporting Directives will be effective from January 1, 2015.

In addition, on December 11, 2015, a circular was published regarding employee rights – discounting rate, including a disclosure format and transitional provisions for initial implementation. In the circular, it is noted that the Bank of Israel reached the conclusion that there is no deep market in Israel for high-quality corporate debentures. Accordingly, the discounting rate for employee benefits will be calculated on the basis of the yield of government debentures in Israel plus an average margin on corporate debentures rated AA (international) and above at the reporting date. For practical considerations, it has been determined that the margin will be established according to the difference between the rates of yields to redemption, for those periods to repayment, on corporate debentures AA-rated and above in the United States, and the rates of yields to redemption, for those periods to repayment, on United States government debentures, all at the reporting date. The circular updates the disclosure requirements regarding employee rights and regarding share-based payments in accordance with U.S. generally accepted accounting principles. In addition, on January 12, 2015, a file of questions and answers was published on the subject. The Company has implemented the amendments to the Public Reporting Directives with effect from January 1, 2015, without retroactive amendment of comparative figures.

Disclosure regarding controls and procedures

Controls and Procedures Regarding Disclosure and the Company’s Internal Controls over Financial Reporting

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the “Sarbanes-Oxley Act,” enacted in the United States. The provisions of these two sections of the law were consolidated by the Supervisor of Banks into Proper Conduct of Banking Business Directive No. 309 in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

The two directives of the aforesaid law have been implemented at the Company since their inception dates:

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been applied quarterly beginning with the financial statements as at June 30, 2007.
- The directive in Section 404 regarding the responsibility for the Company's internal control of financial reporting has been applied at the year end, beginning with the financial statements as at December 31, 2008

The Company routinely updates and documents existing processes; maps and documents processes, including material new processes; and examines the effectiveness of the procedures for internal control of financial reporting through renewed examinations of the main controls.

The Board of Directors and the Management of the Company estimate that the controls identified as noted above are effective in achieving the control objectives with regard to maintaining execution, precision, and completeness. These control objectives meet the criteria established in the COSO 1992 integrated framework of internal controls.

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, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company at 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 at the end of this period, the controls and procedures regarding disclosure in the Company are effective in order to record, process, summarize, and report the information which the Company is required to disclose in its annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2015, 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 controls over financial reporting.

Dan Koller	**Dr. Ron Weksler**
Chairperson of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2016

Certification of the Chief Executive Officer

I, Ron Weksler, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2015 (hereinafter: 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 annual 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 regarding the Company's disclosure[(1)] and internal control over financial reporting[1]; furthermore:

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

   (b) We have established such internal control over financial reporting, or caused such internal control over 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 at 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 over 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 over 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 assessment of the internal control over financial reporting:

(a) Any significant deficiencies and material weaknesses in the establishment or application of internal control over 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 over financial reporting at the Company.

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

[1] As defined in the Public Reporting Directives, "Report of the Board of Directors and Management."

Dr. Ron Weksler

Chief Executive Officer

Tel Aviv, February 25, 2016.

Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2015 (hereinafter: 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 annual 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 regarding the Company's disclosure(1) and internal control over financial reporting[1]; furthermore:

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

   (b) We have established such internal control over financial reporting, or caused such internal control over 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 at 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 over 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 over 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 assessment of the internal control over financial reporting:

(a) Any significant deficiencies and material weaknesses in the establishment or application of internal control over 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 over financial reporting at the Company.

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

(1) As defined in the Public Reporting Directives, "Report of the Board of Directors and Management."

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 25, 2016.

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

The Board of Directors and the Management of Poalim Express Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Report of the Board of Directors and Management"). The system of internal controls at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company 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 it is determined 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 over financial reporting as at December 31, 2015, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO (1992)). Based on this assessment, Management believes that as at December 31, 2015, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2014 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 84. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2015.

Dan Koller	**Dr. Ron Weksler**	**Sigal Barmack**
Chairperson of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 25, 2016.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2015

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Somekh Chaikin

Auditors' Report to the Shareholders of Poalim Express Ltd. according to the Public Reporting Directives of the Supervisor of Banks on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Poalim Express Ltd. (hereinafter: "the Company") as at December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO (1992)"). 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 (PCAOB) in the United States regarding audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. 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 aspects. 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 over financial reporting of a credit-card company 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 in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a credit-card company includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the company (including the removal of assets from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are made only in accordance with authorizations of the board of directors and management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets (including removal of assets from its possession) 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 aspects, effective control over financial reporting as at December 31, 2015, based on criteria established in the Internal Control – Integrated Framework issued by COSO (1992).

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by the directives and guidelines of the Supervisor of Banks, the balance sheets of the Company as at December 31, 2015 and 2014, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows for each of the years in the three-year period ended on December 31, 2015. Our report dated February 25, 2016, expressed an unqualified opinion on the aforesaid financial statements and drew attention to that stated in Note 18.B.2. on regulatory initiatives and in Note 18.C regarding petitions to approve certain claims as class actions against the Company.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (ISR)	Certified Public Accountants (ISR)

Tel Aviv, February 25, 2016

Somekh Chaikin

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

We have audited the accompanying balance sheets of Poalim Express Ltd. (hereinafter: "the Company") as at December 31, 2015 and 2014, and the statements of profit and loss, statements of comprehensive income, statements of changes in shareholders' equity, and statements of cash flows of the Company, for each of the three years in the period ended on December 31, 2014. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks. These standards require that we plan and perform the audit with the aim of obtaining reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles implemented and significant estimates used by the board of directors and by the management of the Company, as well as an evaluation of the fairness of the overall presentation in the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Company as at December 31, 2015 and 2014, and the results of operations, changes in shareholders' equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2015, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to that stated in Note 18.B.2. on regulatory initiatives and in Note 18.C regarding petitions to approve certain claims as class actions against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2015, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO (1992)), and our report dated February 25, 2016, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (ISR)	Certified Public Accountants (ISR)

Tel Aviv, February 25, 2016

Statements of Profit and Loss

Reported amounts

In NIS millions

		For the year ended December 31		
	Note	2015	2014	2013
Income				
From credit-card transactions	3	368	332	317
Net interest income	4	1	3	5
Other income (expenses)		(2)	3	1
Total income		**367**	**338**	**323**
Expenses				
In respect of credit losses	10	6	1	1
Operating expenses	5	120	97	94
Sales and marketing expenses	6	76	69	62
General and administrative expenses	7	30	28	27
Payments to banks	18F	80	82	82
Total expenses		**312**	**277**	**266**
Profit before taxes		**55**	**61**	**57**
Provision for taxes on the profit	8	15	16	14
Net profit		**40**	**45**	**43**
Basic net profit per common share (in NIS)		**285**	**324**	**309**
Number of common shares used in calculation		139,326	139,326	139,326

Dan Koller	**Dr. Ron Weksler**	**Sigal Barmack**
Chairperson of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 25, 2016

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

Statements of Comprehensive Income (1)

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	2014	2013
Net profit	**40**	**45**	**43**
Other comprehensive income (loss) before taxes:			
Adjustments for liabilities in respect of employee benefits	(-*)	-	-
Other comprehensive income before taxes	**(-*)**	**-**	**-**
Effect of related tax	-*	-	-
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(-*)**	**-**	**-**
Comprehensive income attributed to shareholders of the Company	**40**	**45**	**43**

* Amount less than NIS 0.5 million.

(1) Commencing January 1, 2015, the Company applies generally accepted accounting principles in the United States regarding employee rights. Comparative figures for previous periods have not been restated. For information on the cumulative effect of initial implementation, see Note 2.C.1 below.

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

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	**2015**	**2014**
Assets			
Cash		15	15
Debtors in respect of credit-card activity	10	2,314	1,962
Allowance for credit losses		(13)	(11)
Debtors in respect of credit-card activity, net		2,301	1,951
Computers and equipment	11	-*	2
Other assets	12	549	449
Total assets		**2,865**	**2,417**
Liabilities			
Credit from banking corporations	13	4	2
Creditors in respect of credit-card activity	14	2,510	2,108
Other liabilities	15, 18	19	15
Total liabilities		**2,533**	**2,125**
Contingent liabilities and special agreements	18		
Equity	17	332	292
Total liabilities and capital		**2,865**	**2,417**

* Amount less than NIS 0.5 million.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	Capital reserves						
	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Cumulative other comprehensive loss	Retained earnings	Total capital
Balance as at Dec. 31, 2012	***-**	**35**	***-**	**35**	**-**	**169**	**204**
Benefits received from controlling shareholder	-	-	*-	*-	-	-	*-
Net profit for the year	-	-	-	-	-	43	43
Balance as at Dec. 31, 2013	**-***	**35**	**-***	**35**	-	**212**	**247**
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Net profit for the year	-	-	-	-	-	45	45
Balance as at Dec. 31, 2014	**-***	**35**	**-***	**35**	-	**257**	**292**
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Net profit for the year	-	-	-	-	-	40	40
Other comprehensive loss, net after effect of tax(1)	**-**	**-**	**-**	**-**	(-*)	**-**	**(-*)**
Balance as at Dec. 31, 2015	**-***	**35**	**-***	**35**	(-*)	**297**	**332**

* Amount less than NIS 0.5 million.

(1) See Note 9 nelow.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Cash flows from operating activity			
Annual net profit	40	45	43
Adjustments:			
Depreciation of computers and equipment	3	1	1
Provisions for credit losses	6	1	1
Deferred taxes, net	(-*)	-*	(-*)
Benefit from a transaction with a controlling party	-*	-*	-*
Adjustments for exchange rate differences	(-*)	(1)	1
Changes in current assets			
Change in credit to cardholders and merchants, net	17	(1)	2
Change in other debtors in respect of credit-card activity, net	(373)	(66)	(155)
Change in other assets, net	(100)	(11)	(38)
Changes in current liabilities			
Change in short-term credit from banking corporations, net	2	(1)	(1)
Change in creditors in respect of credit-card activity, net	402	91	149
Change in other liabilities	4	1	(2)
Net cash from operating activity	1	59	1

* Amount less than NIS 0.5 million.

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Cash flows from investing activity			
Acquisition of computers and equipment	(1)	(1)	(1)
Net cash from investing activity	(1)	(1)	(1)
Cash flows from financing activity			
Repayment of subordinated notes	-	(56)	-
Net cash from financing activity	-	(56)	-
Increase in cash	-*	2	-*
Balance of cash at beginning of year	15	12	13
Effect of changes in exchange rates on cash balances	-*	1	(1)
Balance of cash at end of year	15	15	12
Interest and taxes paid and/or received			
Interest received	2	4	6
Interest paid	-*	1	2
Taxes paid on income	16	16	15
Taxes received on income	1	-	-*

* Amount less than NIS 0.5 million.

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

Notes to the Financial Statements

Note 1 – General

Poalim Express Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1995 and is wholly owned by Bank Hapoalim B.M. (hereinafter: the "**Parent Company**" / "**Bank Hapoalim**"). The holder of the permit to control Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

The Company issues and clears transactions in "American Express" branded credit cards. Isracard Ltd. (hereinafter: "**Isracard**"), a sister company, operates the Company's credit-card system on behalf of the Company. An agreement is in place between the Company and Isracard for that purpose, regularizing account settlement between the parties (see Note 18E below).

The annual financial statements were approved for publication by the Board of Directors of the Company on February 25, 2016.

Note 2 – Significant Accounting Policies

A. Definitions

In these financial statements:

- Generally accepted accounting principles (GAAP) for US banks – Accounting principles which American banks traded in the United States are required to implement. These rules are established by the banking supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), Codification, of the accounting standards of the Financial Accounting Standards Board in the United States, the hierarchy of generally accepted accounting principles, and in accordance with the guidelines and position statements of the banking supervision agencies in the United States.

- International Financial Reporting Standards (hereinafter: "**IFRS**") – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including IFRS and International Accounting Standards (IAS), and interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC), respectively.

1. The Company – Poalim Express Ltd.

2. The Parent Company – Bank Hapoalim B.M.

3. Related parties – As defined in Section 80 of the Public Reporting Directives.

4. Interested parties – As defined in Section 80 of the Public Reporting Directives.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

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

6. CPI – The consumer price index, as published by the Central Bureau of Statistics in Israel.

7. USD – United States dollar.

8. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.

9. Reported amount – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

10. Cost – Cost in reported amounts.

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

12. Functional currency – The currency of the main economic environment in which the company operates. Usually the currency of the environment in which the company generates and expends most of its cash.

13. Presentation currency – The currency in which the financial statements are presented.

B. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with Israeli GAAP and the Public Reporting Directives and guidelines of the Banking Supervision Department.

In most of the subjects, these directives are based on GAAP for US banks. In the other subjects, which are less material, the directives are based on IFRS and in Israeli GAAP.

In cases where the IFRS allows a number of alternatives, or do not include a specific reference to a specific situation, these directives include specific instructions for implementation, which are based mainly of GAAP for US banks.

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israeli Shekels (NIS), the functional currency of the Company, rounded to the nearest million, except where otherwise noted.

Note 2 – Significant Accounting Policies (cont.)

B. Basis for Preparation of the Financial Statements (cont.)

3. Measurement Base

The financial statements were prepared on the basis of historical cost, with the exception of the assets and liabilities listed below:

- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits.

The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli economy was considered a hyper-inflationary economy until that date. Beginning on January 1, 2004, the Company has prepared its financial statements in reported amounts.

4. Use of Estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidelines of the Banking Supervision Department requires the Management of the Company to exercise judgment in the use of estimates, evaluations, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements, the Management of the Company is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Management of the Company bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate.

The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

Note 2 – Significant Accounting Policies (cont.)

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

The following accounting standards and new directives were implemented by the Company for the first time in the financial statements for 2015:

1. Adoption of US GAAP regarding employee rights and share-based payment.
2. Reporting under US GAAP relating to the distinction between liabilities and capital.
3. Collective allowance for credit losses.
4. Instructions of the Banking Supervision Department on capitalization of software costs.
5. Updating the structure of the annual report to the public of a banking corporation and of a credit card company.
6. Disclosure of interested parties and related parties.

Below is a description of the changes adopted in accounting policy in these consolidated financial statements, and a description of the manner and effect, if any, of the initial implementation thereof:

1. Adoption of US GAAP regarding employee rights

On April 9, 2014, the Supervisor of Banks published a circular regarding the adoption of the accounting rules in the United States on the subject of employee rights. The circular updates the recognition, measurement, and disclosure requirements regarding benefits to employees in the Public Reporting Directives in accordance with the generally accepted accounting principles in banks in the US. The circular provides that the amendments to the Public Reporting Directives will apply from January 1, 2015.

In addition, on January 11, 2015, a supplementary circular was published on the subject of employee rights - the discount rate, including a disclosure format and transitional provisions for first implementation. The circular states that the Bank of Israel reached the conclusion that there is no deep market of high-quality corporate debentures in Israel.

Accordingly, the discount rate for employee benefits will be calculated based on the yield of Israel government bonds plus an average margin of corporate bonds rated internationally as AA and above at the reporting date. For practical reasons, it was decided that the calculation of the margin would be based on the difference between the rate of return to redemption by maturity date of corporate bonds rated AA and above in the US, and rate of return to redemption, for the same maturity dates, of US government bonds, as at the reporting date.

The circular updates the disclosure requirements on employee rights and on share-based payments in accordance with generally accepted accounting principles in US banks. In addition, on January 12, 2015, an FAQ was published on the matter.

The Company implemented the amendments to the Public Reporting Directives as of January 1, 2015 without retroactive amendment of the comparative figures.

Note 2 – Significant Accounting Policies (cont.)

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks (cont.)

1. Adoption of US GAAP regarding employee rights (cont.)

The effect of first-time implementation of the directive is a loss of less than NIS 0.5 million (net of tax) that was recorded as a separate item in the condensed consolidated statements of comprehensive income. This amount will be amortized on a straight-line basis over the average remaining period of service of employees expected to receive benefits in accordance with the plans. Other actuarial gains and losses in subsequent periods will also be included in other accumulated comprehensive income and will be amortized on a straight-line basis over the average period of service remaining of employees expected to receive benefits in accordance with the plans. See also Note 16 below.

Below are the principal new directives on employee rights:

The present status of the Company's employees includes:

1. Employees under a collective agreement and / or individual employment contracts signed with the Company or with Europay.

2. Employees with the status of Bank Hapoalim employees on loan to the Company - in addition to labor legislation and the extension orders, the terms of employment of most of the employees are regulated by the Labor Agreement of employees of institutions of the Histadrut, under collective agreements and various arrangements regarding the terms of salaries and other rights.

Post-retirement benefits, which are defined benefit plans, including severance pay and early retirement. The Company recognizes the amounts relating to severance pay and early retirement on the basis of calculations which include actuarial assumptions and other assumptions, including discount rates, mortality, wage increases, employee turnover rates and expected long-term rates of return on assets in the plan, if applicable.

Changes in the assumptions are generally recognized, and subject to the provisions set forth above, first in other accumulated comprehensive income, and amortized to profit or loss in subsequent periods.

The liability is accrued over the relevant period determined in accordance with the rules outlined in Topic 715 of the Codification.

Other post-employment benefits - a bonus for non-utilization of sick leave and other post-employment benefits – the liability is accrued over the period for benefit entitlement.

For purposes of calculating the liability discount rates and actuarial assumptions are taken into account.

The main changes with respect to the accounting policies applied in the financial statements as of December 31, 2014 are as follows:

Note 2 – Significant Accounting Policies (cont.)

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks (cont.)

1. Adoption of US GAAP regarding employee rights (cont.)

In accordance with Israeli GAAP, until December 31, 2014, the Company's liability for severance pay to employees in the collective agreement and / or in individual employment contracts signed with Europay, was calculated on the basis of the shutdown approach in accordance with Opinion 20 of the Institute of Certified Public Accountants in Israel.

According to a circular on the adoption of the US accounting rules on employee rights, starting from January 1, 2015, the Company recognizes the amounts relating to severance pay on the basis of calculations which include actuarial and other assumptions. The discount rate is determined based on the yield of government bonds in Israel plus the average margin on corporate bonds rated AA (International) or higher at the reporting date.

In accordance with the directives of the Banking Supervision Department, until December 31, 2014, the discount rate of the liability was 4% for employees with the status of Bank Hapoalim employees on loan to the Company. Actuarial gains and losses are recognized immediately in the statement of profit and loss.

For further information regarding the accounting policies used in the Company for employee rights, see Note 2.D,10 below.

For the purpose of calculating the capital requirement under Basel III directives, pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299, the accumulated balance of profit or loss with respect to the measurement of net liabilities in respect of a defined benefit for employees is not taken into account immediately, but is subject to transitional provisions, so that its impact will be spread in equal proportions of 20% beginning January 1, 2014, 40% from January 1,2015, until full implementation commencing January 1, 2018.

2. Reporting in accordance with US GAAP relating to the distinction between liabilities and capital

On September 30, 2014, the Supervisor of Banks issued a circular on reporting under US GAAP relating to the distinction between liabilities and capital. This follows the policy of the Banking Supervision Department to adopt in material respects the applicable financial reporting system for US banks. The Company applied the rules as of January 1, 2015. The implementation of the circular had no impact on the financial statements of the Company.

Note 2 – Significant Accounting Policies (cont.)

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks (cont.)

3. Collective allowance for credit losses

On January 19, 2015, the Banking Supervision Department issued a circular on the "Collective Allowance in respect of Credit to Individuals", in the framework of which the Public Reporting Directives were amended. Pursuant to the directive, a temporary provision was incorporated in the Public Reporting Directives on the "Collective Allowance for Credit Losses in the years "2011 to 2012", with certain changes.

Among other things, the circular stipulates that the determination of a collective allowance for credit losses in respect of customers and businesses must take into account both past losses in a range of 5 years ending on the reporting date, and qualitative adjustments in respect of environmental factors that reflect the quality of the credit and its prospects of collection.

Accordingly, the Company adjusted the method of calculation of the measurement of the rate of credit losses so that the coefficient of the collective allowance in respect of any group of debts was calculated based on the average of past losses in a range of the last 5 years, plus an adjustment for environmental factors which reflects, among other things, trends in credit volume, macro-economic data, an assessment of the overall quality of the credit, changes in volumes and trends of balances in arrears and impaired balances, the effects of changes in credit concentrations, and more. Furthermore, in accordance with the circular, it was decided that when determining the allowance for credit losses for individuals, it must be ensured that the rate of adjustments, in respect of environmental factors relevant to the prospects of collection, is not less than 0.75% of the outstanding non-problematic credit to individuals at that time, with respect to the average rates of loss for the range of years.

4. Instructions of the Banking Supervision Department on capitalization of costs of software

In accordance with the Public Reporting Directives, the Company applies International Accounting Standard 38 on "Intangible Assets" (IAS 38) and the guidelines prescribed in the framework of SOP 98-1 on "Accounting for the cost of computer software developed or obtained for internal use". In view of the complexity of the accounting process of capitalization of software costs, and in light of the significant amounts of capitalized software costs, the Banking Supervision Department set out guidelines for the Company regarding capitalization of software costs, pursuant to which, among other things, a materiality threshold is to be determined for capitalization. Any software development project whose total software costs that can be capitalized in its respect are below the materiality threshold set, will be recognized as an expense in the statement of profit and loss.

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

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Banking Supervision Department (cont.)

5. Updating the structure of the annual report to the public of a banking corporation and of a credit card company.

On April 28, 2015, a circular was published on "Updating the Structure of the Annual Statement of a Banking Corporation and a Credit Card Company". The circular refers, inter alia, to changing the order of presentation in the financial statements, presenting the statement of profit and loss before the balance sheet, presenting notes to the profit and loss before notes to the balance sheet, and more detailed information to be included in the chapter on risks in the financial statements. In addition, the circular makes a significant update of the Directors' Report and cancels the Management Review chapter, while integrating its disclosures in other sections in the public reporting framework, and setting requirements for detailed reporting on risks on the Internet. Banks and credit card companies implement the provisions of the circular from the report to the public for the year 2015. Implementation of the circular had no impact on the financial statements except for the manner of presentation and disclosure.

6. Disclosure of interested parties and related parties.

On June 10, 2015, a circular was issued by the Banking Supervision Department on "Disclosure of Interested Parties and Related Parties" ,pursuant to the circular, in light of the changes to Proper Conduct of Banking Business Directive No. 312 on transactions of a banking corporation with related persons. Following the amendment, information on this subject in the report to the public will be given in respect of each interested party in accordance with Directive 312 and each other related party according to generally accepted accounting principles in US banks. Banking corporations and credit card companies implement the amendments provisions of the circular from the report to the public for the year 2015.

Implementation of the circular had no impact on the financial statements except for the manner of presentation and disclosure.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements

The accounting policies detailed below were implemented consistently over all of the periods presented in these financial statements, unless otherwise noted.

1. Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined.

Exchange-rate differences arising from translation into the functional currency are recognized in profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the consumer price index are included according to the linkage terms established for each balance.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

1. Foreign Currency and Linkage (cont.)

Set out below are details regarding representative exchange rates and the CPI (2012 base = 100), and the rates of change therein:

	December 31		
	2015	**2014**	**2013**
Consumer price index (in points)	101.1	102.1	102.3
United States dollar exchange rate (in NIS per 1 USD)	3.902	3.889	3.471
Euro (in NIS per 1 Euro)	4.247	4.725	4.782

	Percent change in the year ended December 31		
	2015	**2014**	**2013**
Consumer price index	(1.0)	(0.2)	1.8
USD exchange rate	0.3	12.0	(7.0)
Euro rate	(10.1)	(1.2)	(2.8)

2. Basis for Recognition of Revenue and Expenses

(1) Income from clearing fees, net of fee refunds, is recognized 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 clearing fees on a net basis.

(3) Income from card fees and deferred-debit fees collected from cardholders are recognized in the statement of profit and loss on a cumulative basis.

(4) Interest income and expenses are recognized on an accrual basis, with the exception of interest on amounts in arrears, which is recognized in the statement of profit and loss based on actual collection.

(5) Other income and expenses are recognized on an accrual basis.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses

Pursuant to the directive of the Banking Supervision Department concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, beginning on January 1, 2011, the Company has implemented the American accounting standard ASC 310 and the position statements of the banking supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives and in the position statements and guidelines of the Supervisor of Banks. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. As of January 1, 2013, the Company has also implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses.

Debtors in Respect of Credit Card Activity and Other Debt Balances

The directive is implemented with regard to all debt balances, such as deposits with banks, debtors in respect of credit-card activity (including credit to merchants), and other debt balances reported in the Company's books according to the recorded debt balance. The recorded debt balance is defined as the debt balance after charge-offs but before deduction of the allowance for credit losses in respect of that debt. The Company applies rules according to which the balance of the debt in the Company's books includes the component of interest accrued before the classification of the debt as impaired.

Identification and Classification of Impaired Debts

The Company classifies all of its problematic debts and items of off-balance-sheet credit into the categories: under special supervision, substandard, or impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. Decisions regarding debt classification are made based on factors including the state of arrears of the debt and evaluation of the borrower's financial condition and repayment capability.

In any case, debt is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. For that purpose, the Company monitors the days of arrears, with reference to the contractual repayment terms. A debt is in arrears when the principal or interest in respect of the debt has not been paid, after the scheduled payment date. Once the debt has been classified as impaired, it is treated as a debt not accruing interest income (such a debt is called “a non-performing debt”). In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses (cont.)

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain an allowance, in a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual allowance” or “collective allowance.” The Company also examines the overall fairness of the allowance for credit losses. This evaluation of fairness is based on Management's judgment, taking into consideration the risks inherent in the credit portfolio and the assessment methods applied by the Company to establish the allowance.

Individual allowance for credit losses – The Company chooses to identify debts for individual examination when the total contractual balance of the debt (without deducting charge-offs that do not involve an accounting waiver and allowances for credit losses) is NIS 500 thousand or more. An individual allowance for credit losses is recognized for any debt examined on an individual basis and classified as impaired. In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired debt, and is examined individually. The individual allowance for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards by the debtor.

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually in large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is calculated in accordance with the rules set forth in FAS 5 (ASC 450), "Contingencies," based on the formula for the calculation of the collective allowance specified in the directive of the Banking Supervision Department, regarding the collective allowance for credit losses in the years 2011 - 2012, and the circular on the collective allowance for individual persons dated January 19, 2015. The formula is based on historical rates of loss and differentiates between problematic and non-problematic credit, and between individual persons and merchants, international organizations, and credit-card companies.

Pursuant to the directives of the Banking Supervision Department, the Company formulated a method of calculation of the collective allowance that takes into account both the rate of past losses and environmental factors relevant to credit to private individuals. The rate of adjustment in respect of environmental factors is not less than 0.75% of the outstanding non-problematic credit at each reporting date, with respect to the average rates of loss for the range of years.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses (cont.)

Off-balance Sheet Credit

The allowance required in respect of off-balance-sheet credit instruments is assessed according to the rules established in FAS 5 (ASC 450). The allowance assessed on a collective basis for off-balance-sheet credit instruments is based on the rates of allowances established for balance-sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of off-balance-sheet credit risk. The credit is converted to risk-adjusted assets based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standardized Approach.

Furthermore, the Company reviews the overall appropriateness of the allowance for credit losses. This review of appropriateness is based on Management’s discretion that takes into account the risks inherent in the loan portfolio and the methods of evaluation applied by the Company for determining the allowance.

Troubled Debt Restructuring

A debt that has undergone a troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Company has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower).

In order to determine whether a debt arrangement executed by the Company constitutes a troubled debt restructuring, the Company performs a qualitative examination of the terms and circumstances of the arrangement in aggregate, to establish whether: (1) the borrower is in financial difficulties; and (2) the Company granted a concession to the borrower as part of the arrangement.

In order to determine whether the borrower is in financial difficulties, the Company determines whether there are signs indicating that the borrower was in difficulties at the time of the arrangement, or whether there is a reasonable probability that the borrower will fall into financial difficulties without the arrangement. Among other factors, the Company examines the existence of one or more of the following circumstances: (1) at the date of the debt arrangement, the borrower is in default, including when any other debt of the borrower is in default; (2) with regard to debts that at the date of the arrangement are not in arrears, the Company estimates whether, based on the borrower's current repayment capability, it is likely that the borrower will default in the foreseeable future and will fail to comply with the original contractual terms of the debt; (3) the debtor has been declared bankrupt, is in a receivership proceeding, or there are significant doubts regarding the continued survival of the borrower as a going concern; and (4) if there is no change in the terms of the debt, the borrower will be unable to raise funds from other resources at the prevalent interest rate in the market for borrowers who are not in default.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses (cont.)

The Company concludes that a concession was granted to the borrower in the arrangement, even if the contractual interest rate was raised as part of the arrangement, if one or more of the following occurs: (1) as a result of the restructuring, the Company is not expected to collect the full amount of the debt (including interest accrued according to the contractual terms); (2) the debtor does not have the ability to raise resources at the prevalent market rate for debt with terms and characteristics such as those of the debt granted in the arrangement.

Debts the terms of which have been changed during a troubled debt restructuring, including those examined on a collective basis prior to restructuring, are classified as impaired debt and assessed on an individual basis for the purpose of the allowance for credit losses or charge-off. In light of the fact that a debt that has undergone a troubled debt restructuring will not be repaid according to its original contractual terms, the debt continues to be classified as impaired, even after the borrower resumes repayment according to the new terms.

Charge-Offs

The Company performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Company has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). With regard to debts evaluated on a collective basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days), and on other problematic characteristics. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Company's books. Notwithstanding the foregoing, with respect to debts that were examined on a collective basis and classified as impaired due to troubled debt restructuring, the need for an immediate charge-off is reviewed. In any event, the said debts are charged-off in the accounts no later than the date on which the debt went into arrears of 60 days or more, with respect to the terms of the restructuring.

Revenue Recognition

Upon classification of a debt as impaired, the Company defines the debt as a debt not accruing interest income, and ceases accruing interest income in respect of the debt.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses (cont.)

Disclosure Requirements

The Company implements the disclosure requirements of the Credit Quality of Debts and Credit Loss Allowances as set forth in the framework of the update to Accountinf Standard ASU 2010-20, which requires more extensive disclosure of debt balances, changes in the balance of the allowance for credit losses, any material acquisitions and sales of debts during the reporting period, and additional disclosures regarding credit quality.

Among other matters, banking corporations and credit-card companies are required to provide quantitative disclosure of an indication of credit quality, at least with regard to the balance of problematic debts in each group of debts. The disclosure is required for each credit segment (e.g. commercial credit, private credit, other credit, and banks), as well as for each of the main groups of debts, as defined in the directive.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

4. Establishing the Fair Value of Financial Instruments

The Company applies the rules established in FAS 157 (ASC 820-10), which defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation.

Fair value is defined as the price that would be obtained from the sale of an asset, or the price that would be paid to extinguish a liability, in an ordinary transaction between market participants, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Company at the date of measurement.
- Level 2 data: Observable inputs for the asset or liability, directly or indirectly, which are not quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

The hierarchy requires the use of observable market inputs, when such information is available. When possible, the Company considers relevant observable market information in its evaluation. The volume and frequency of transactions, bid-ask spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when the Company determines the liquidity of markets and the relevance of prices observed in such markets.

In addition, the fair value of financial instruments is measured without taking the blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair value measurement by market participants in the absence of Level 1 data.

5. 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 clearing services from the Company, the Company records a liability to pay another clearing company.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

6. Offsetting Assets and Liabilities

In accordance with Section 15A of the Public Reporting Directives, the Company offsets assets and liabilities arising from the same counterparty and presents the net balance thereof in the balance sheet, under the following cumulative conditions:

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously.
- The Company and the counterparty owe one another determinable amounts.

The Company offsets assets and liabilities with two different counterparties and presents a net amount in the balance sheet given all of the cumulative conditions noted above, provided that an agreement exists between the parties clearly establishing the Company's right to offset with respect to such liabilities.

7. Fixed Assets

Recognition and Measurement

Fixed-asset items are measured at cost, with the deduction of accrued amortization and accrued losses from impairment. The cost includes expenses directly attributable to the acquisition of the asset. The cost of assets developed in-house includes the cost of materials and direct labor wages, as well as any additional cost directly attributable to bringing the asset to the location and condition necessary in order for it to operate in the manner intended by management.

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "Buildings and Equipment."

Profit or loss from the disposal of a fixed-asset item are determined by comparing the consideration from the disposal of the asset with its book value, and recognized as a net amount under the item "other income" in the statement of profit and loss.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

7. Fixed Assets (cont.)

Subsequent Costs

Subsequent costs are recognized as part of the book value of fixed assets if the future economic benefits inherent therein are expected to flow to the Company, and if the cost can be measured reliably. Routine maintenance costs of fixed-asset items are allocated to profit and loss when they arise.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, after deduction of the residual value of the asset. An asset is depreciated when it is available for use, i.e. when it has reached the necessary location and condition in order for it to function in the manner intended by Management.

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Assets leased in finance leases are depreciated over the shorter of the period of the lease and the period of use of the assets. Improvements to rental properties are depreciated over the shorter of the period of the lease and the useful life. Land owned by the Company is not depreciated.

Useful life estimates for the current period and for comparative periods:

Computers and peripheral equipment	3-4 years
Software costs	4-5 years
Furniture and office equipment	5-16 years

Estimates related to the depreciation method, useful life, and residual value are reexamined at least at the end of each reporting year, and adjusted when necessary.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

7. Fixed Assets (cont.)

Software Costs

Software acquired by the Company is recognized as an asset and measured at cost, with the deduction of depreciation and accumulated losses from impairment. Costs related to software development or adaptation for in-house use are capitalized if and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Company has the intention and sufficiency in resources to complete the development and use the software. Costs recognized as an intangible asset in respect of development activities include direct costs of materials and services and direct labor wages for workers. Other costs in respect of development activities and research costs are allocated to profit and loss when they arise. In subsequent periods, capitalized development costs are measured at cost, with the deduction of amortization and accrued losses from impairment.

Subsequent Costs

Subsequent costs are recognized as intangible assets only when they increase the future economic benefit inherent in the asset in respect of which they were expended. Other costs, including costs related to goodwill or brands developed in-house, are allocated to the statement of profit and loss when they arise.

Amortization

Amortization is the systematic allocation of the cost of an intangible asset over its useful life. Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of the intangible assets, including software assets, starting on the date when the assets are available for use.

Intangible assets created at the Company (such as software under development) are not amortized systematically as long as they are not available for use, i.e. they are not in the necessary location and condition in order to function in the manner intended by Management. Accordingly, these intangible assets, such as software costs, are examined for impairment at least once a year until they become available for use.

The estimated useful life for the current period and for comparative periods with respect to capitalized development costs is 4-5 years. Estimates related to the amortization method, useful life, and residual value are reexamined at least at the end of each reporting year, and adjusted when necessary.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

8. Impairment of Non-Financial Assets

Timing of Examination of Impairment

The book value of the non-financial assets of the Company, with the exception of deferred-tax assets and including equity-basis investments, is examined at each reporting date, in order to determine whether indications of impairment are present. If such indications exist, an estimate of the recoverable amount of the asset is calculated.

Measurement of Recoverable Amount

The recoverable amount of an asset is the higher of its value in use and its fair value net of realization expenses (net sale price). In determining value in use, the Company discounts the estimated future cash flows according to a pretax discount rate reflecting market estimates regarding the time value of money and the specific risks related to the asset, in respect of which cash flows expected to derive from the asset have not been adjusted. Losses from impairment are recognized when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss.

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(1) The software is not expected to provide significant potential services;

(2) The manner or volume of use or expected use of the software has changed substantially;

(3) The software has been or will be substantially changed;

(4) Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;

(5) It is no longer expected that development will be completed and the software will be used.

If one or more of the signs listed above exists, the Company tests for impairment in accordance with the rules set forth in IAS 36, Impairment of Assets.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

9. Provision for Gift Promotions (Points Program) for Credit-Card Holders

During 2015, the Company split the Points Program into two programs: a program for premium card holders and a program in respect of other types of credit cards.

The balance of the liability for the program is calculated on an economic basis and is compatible with the existing methodology in the Company prior to splitting the program into two separate programs.

10. Employee Rights

The Company is obligated by law, agreements and practice, for payments of retirement benefits to employees, which include payments under defined benefit plans in respect of pensions (such as pension payments, severance pay and retirement), payments under other plans after retirement (such as holiday gifts and other welfare and health contributions paid to pensioners or on their behalf). Also, in accordance with the directives of the Banking Supervision Department, a company that expects a group of employees to be paid benefits beyond the contractual terms is required to take into consideration the expected turnover rate of employees (including employees expected to retire under voluntary-retirement plans or upon receiving other preferred terms) and the benefits that these employees are expected to receive upon leaving.

The Company's obligations for payment of compensation, pension and severance pay to employees of the Company that are not in accordance with Section 14 of the Severance Pay Law, are accounted for in defined benefit plans calculated on an actuarial basis taking into account probabilities based on past experience. The discount rate is calculated based on the government bond yield in Israel plus the average margin on corporate bonds rated AA (International) or above at the reporting date. For practical reasons, it was determined that the interval will be determined by the difference between yield rates to maturity, by maturity period, of corporate bonds rated AA or above in the United States, and yield rates to maturity, for the same maturity period, of US government bonds, at the reporting date. The mortality rate is based on the current directives of the Commissioner of Capital Markets, Insurance and Savings as outlined in Circular 2013-1-2 (New Tables for Insurance Companies). The rate of future salary increases is estimated by Management.

The net cost for the period charged to profit and loss includes the following components: cost of service, interest cost, forecast return on plan assets, including Central Severance Pay Funds, amortization of net actuarial gain or loss, amortization of a net asset or liability in respect of the transition to US standards and included as part of accumulated other comprehensive income.

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

D. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

10. Employee Rights (cont.)

An actuarial gain or loss is a change in the value of the obligation for the forecast benefit or the plan assets arising from the fact that actual experience is different from that estimated, or resulting from a change in an actuarial assumption. Actuarial gains and losses are included in accumulated other comprehensive income and are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits during the plan.

Short-term employee benefits (such as salaries, vacation, and bonuses) are measured on an undiscounted basis and are expensed at the time of the related service. For further information regarding employee rights, see C.(1) above.

11. Share-Based Payment Transactions

Share-based payment transactions with Company employees are accounted for in accordance with Codification Topic 718. These transactions include the receipt of services from the employees in consideration of the issuance of shares of the parent company. These transactions include commitments to employees, if either of the following conditions is met: 1) The amount is based, at least in part, on the share price of the parent company. 2) The bonus requires, or may require, settlement by issuing shares in the parent company. In general, the Company recognizes the services received in share-based payment transactions, when these are provided by the employees.

For share-based payment transactions that are classified as equity bonuses, the fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or performance conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are performance conditions constituting market conditions, the Company takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Company therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense in profit and loss.

The fair value at the grant date of share-based payment for services is charged to selling and marketing expenses with a corresponding increase in equity, over the term of the service agreement. For further information regarding the adoption of US accounting principles in the United States on employee benefits in share-based payment transactions, see Section C.1 above.

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

D. Accounting Policy implemented in the Preparation of the Financial Statements (cont.)

12. Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Banking Supervision Department, such that the claims filed against the Company are classified into three groups:

1. Probable risk – the probability of realization of the exposure to risk is greater than 70%. Provisions are included in the financial statements in respect of claims in this risk group.

2. Reasonably possible risk – the probability of realization of the exposure to risk is greater than 20% and less than or equal to 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

3. Remote risk – the probability of realization of the exposure to risk is less than or equal to 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Banking Supervision Department has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse.

13. Expenses for Taxes on Income

Taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity.

Current Taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws enacted or substantively enacted at the reporting date, including changes in tax payments referring to previous years.

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

D. Accounting Policy implemented in the Preparation of the Financial Statements (cont.)

13. Expenses for Taxes on Income (cont.)

Offsetting Current Tax Assets and Liabilities

Current tax assets and current tax liabilities are offset in the balance sheet when they arise from the same reported entity, an enforceable legal right to offset exists, and there is an intention to settle on a net basis and realize the taxes simultaneously.

Deferred Taxes

Deferred taxes are recognized with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. The measurement of deferred taxes reflects the tax effects that will derive from the manner in which the Company expects, at the end of the reporting period, to recover or settle the book value of the assets and liabilities. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted or substantively enacted at the balance-sheet date.

Deferred tax assets in respect of losses carried forward, tax credits, and deductible temporary differences, when it is more likely than not that taxable income against which they can be used will exist in the future. Deferred-tax assets are examined at each reporting date, and are written down if the relevant tax benefits are not expected to materialize.

Offsetting Deferred Tax Assets and Liabilities

The Company offsets deferred tax assets and liabilities if a legally enforceable right exists to offset current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

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

D. Accounting Policy implemented in the Preparation of the Financial Statements (cont.)

14. Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, states that borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset must be capitalized. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including fixed assets, software assets, and other assets where a long period is necessary in order to bring the asset to a condition in which it can fulfill its designated function or be sold. However, it has been clarified in the directives of the Supervisor of Banks that banking corporations and credit-card corporations shall not capitalize borrowing costs unless they have established clear policy, procedures, and controls with regard to the criteria for recognition of qualifying assets and with regard to the borrowing costs capitalized. Accordingly, the Company does not capitalize borrowing costs of qualifying assets.

15. Earnings Per Share

The Company presents data on basic and diluted earnings per share with respect to its common share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the common shares of the Company by the weighted average number of common shares in circulation during the year.

16. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, investing activity, and financing activity. Cash flows arising from main activities of the Company are classified under operating activity. The item "cash and cash equivalents" includes cash on hand and deposits in banks for an original period of up to three months.

17. Reporting on Operating Segments

A segment is a component of the Company engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Company is established in the Public Reporting Directives of the Banking Supervision Department.

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

D. Accounting Policy implemented in the Preparation of the Financial Statements (cont.)

18. Related Party Disclosures

Information on balance sheet and off-balance sheet balances and the information on the results of transactions with interested parties and related parties is provided in accordance with the Public Reporting Directives for each person defined as an interested party or a related party according to the definitions in Section 1 of the Public Reporting Directives, or a related party, according to the definitions in Proper Conduct of Banking Business Directive No. 312 on the "Banking Corporation's Business with Related Parties". In addition to the disclosure requirements required under the provisions of the Public Reporting Directives, the Company applies the disclosure provisions required in implementation of Codification Topic 850 on "Related Party Disclosures".

19. Transactions with Controlling Parties

The Company implements US GAAP for the accounting treatment of transactions between a credit-card company and its controlling party or a company controlled by the banking corporation or credit-card company. In situations where these rules do not address the accounting treatment, the Company applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party.

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Company allocates the difference between the fair value and the consideration from the transaction to equity.

Loans, Including Deposits

At the first recognition date, the loan granted to the controlling party or the deposit received from the controlling party is presented in the financial statements of the Company at its fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof at the first recognition date is allocated to equity.

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Company at their depreciated cost.

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

E. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

1. Recognition of income from contracts with customers

On January 11, 2015, a circular was issued on the adoption of updated accounting rules relating to income from contracts with customers. The circular updates the Public Reporting Directives in light of ASU 2014-09 that adopts, in the US accounting rules, a new standard related to revenue recognition. The standard states that revenue is recognized in the amount expected to be received in exchange for the transfer of goods or the provision of services to the customer.

In accordance with the transitional provisions for the year 2015, it is required to implement the amendments to the Public Reporting Directives according to the circular on adoption of updated accounting principles on "Income from Contracts with Customers" from January 1, 2018.

On initial application, a choice can be made between the alternative of applying retrospective restatement of comparative figures and the alternative of a prospective application while recording the accumulated effect on equity at the time of initial application.

The new Standard does not apply, inter alia, on financial instruments and rights or contractual commitments covered by Codification Topic 310. The Company has yet to examine the impact of the standard on its financial statements and has not yet chosen the alternative of implementing the transitional provisions.

2. Reporting under generally accepted accounting principles in the US on intangible assets

On October 22, 2015, a circular was published on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP on Intangible Assets". Pursuant to the circular, banking corporations and credit card companies are to implement US GAAP on the subject of intangible assets.

The instructions set forth pursuant to the directive will apply from January 1, 2016 and thereafter. In the opinion of the Company, adoption of the directives is not expected to have a significant effect on its financial statements.

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

E. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

3. Implementation of US GAAP on taxes on income

On October 22, 2015, a circular was published on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP on Taxes on Income".

Pursuant to the circular, it is required to implement US GAAP on taxes on income, and, inter alia, the rules for presentation, measurement and disclosure set forth in the directives of Codification Topic 740 on "Taxes on income" and Codification Topic 740-830 on "Foreign Currency Issues - Taxes on Income". These provisions replace the existing provisions in the Public Reporting Directives based primarily on the International Accounting Standard related to taxes on income (IAS 12).

According to the circular, it is required to implement the new rules from January 1, 2017. Upon initial implementation, it is required to act in accordance with the transitional provisions set forth on the same subjects, with the necessary modifications. The above-mentioned includes retroactive adjustment of comparative figures, if required. There is no obligation to provide disclosure in the 2017 financial statements regarding unrecognized tax benefits.

The Company is examining the implications and implementation of the above directives, but given the complexity of the implementation of the said provisions and in light of the differences between US tax laws and their lack of suitability for the tax environment in Israel, it is currently unable to estimate their impact on the financial statements.

Note 3 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Income from merchants:			
Merchant fees	319	297	290
Others	-*	1	1
Total gross income from merchants	319	298	291
Less fees to other issuers	25	23	23
Total net income from merchants	**294**	**275**	**268**
Income in respect of credit-card holders:			
Issuer fees	19	14	12
Service fees	37	34	29
Fees from transactions abroad	18	9	8
Total income in respect of credit-card holders	74	57	49
Total income from credit-card transactions	**368**	**332**	**317**

Note 4 – Net Interest Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
A. Interest income:			
From credit to individuals	-*	*	*
From commercial credit	1	1	2
From deposits with banks	-*	2	4
From other assets	-*	1	1
Total in respect of assets	1	4	7
B. Interest expenses:			
To banking corporations	(-*)	(-*)	(*-)
On notes	-	(1)	(2)
Total in respect of liabilities	(-*)	(1)	(2)
Total net interest income	**1**	**3**	**5**

* Amount less than NIS 0.5 million.

Note 5 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Wages and related expenses	27	20	22
Data processing and computer maintenance	15	13	14
Automatic Bank Services (ABS)	2	2	2
Royalties to international organization	44	37	36
Amortization and depreciation	3	1	1
Communications	1	1	1
Production and delivery	17	14	12
Damages from abuse of credit cards	1	1	1
Rent and building maintenance	6	6	5
Others	4	2	*-
Total operating expenses	**120**	**97**	**94**

* Amount less than NIS 0.5 million.

Note 6 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Wages and related expenses	12	12	11
Advertising	3	4	3
Customer retention and recruitment	17	20	17
Gift campaigns for credit-card holders	32	23	23
Club management fees	10	7	4
Others	2	3	4
Total sales and marketing expenses	**76**	**69**	**62**

Note 7 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	**2014**	**2013**
Wages and related expenses	3	3	4
Insurance	-*	1	*-
Payments to Isracard(1)	23	20	19
Others	4	4	4
Total general and administrative expenses	**30**	**28**	**27**

* Amount less than NIS 0.5 million.

(1) See Note 18.E below.

Note 8 – Provision for Taxes on the Profit

Reported amounts

In NIS millions

1. Composition:

	For the year ended December 31		
	2015	2014	2013
Current taxes for the accounting year	15	16	14
Deferred taxes for the accounting year	(-*)	-*	(-*)
Current taxes for previous years	(-*)	-	-
Provision for taxes on income	**15**	**16**	**14**

* Amount less than NIS 0.5 million.

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

	For the year ended December 31		
	2015	2014	2013
Tax rate applicable to the Company in Israel	26.5%	26.5%	25%
Tax amount based on statutory rate	15	16	14
Change in balance of deferred taxes due to changes in tax rates	-	-*	(-*)
Provision for taxes on income	**15**	**16**	**14**

* Amount less than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2011, including tax assessments considered to be final under the Income Tax Ordinance.

4. Deferred tax balances:

	Deferred taxes receivable for the year ended December 31	
	2015	2014
From allowance for credit losses	8	7
From benefits for employees	-*	1
Total	**8**	**8**

* Amount less than NIS 0.5 million.

Note 8 – Provision for Taxes on the Profit (cont.)

5. Changes in tax rates

A. Companies Tax

Rates of corporation tax relevant to the Bank for 2013-2015 are as follows:

2013: 25%

2014: 26.5%

2015: 26.5%

On January 4, 2016, the Knesset passed the Amendment to the Income Tax Ordinance (No. 216), 2016 which stipulated, inter alia, a decrease in the rate of Companies Tax from 2016 and thereafter of 1.5% to stand at 25%.

If the legislation would have been completed by December 31, 2015, the effect of the change on the financial statements at December 31, 2015, would have reflected a decrease in balances of deferred tax assets of less than NIS 0.5 million which would have been recognized against deferred tax expenses.

Current taxes for reporting periods are calculated in accordance with the rates of tax shown in the above table.

Note 9 – Cumulative Other Comprehensive Loss

Reported amounts

NIS millions

A. Changes in cumulative other comprehensive loss, after effect of tax

	Adjustments for employee benefits (1)	Other comprehensive loss attributed to shareholders of the Company
Balance as at December 31, 2014	**-**	**-**
Net change during the period	(-*)	(-*)
Balance as at December 31, 2015	**(-*)**	**(-*)**

B. Changes in components of cumulative other comprehensive loss, before and after effect of tax

	year 2015		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Employee benefits (1)			
Net actuarial loss in the year	(-*)	-*	(-*)
Total net change during the period	**(-*)**	**-***	**(-*)**

* Amount less than NIS 0.5 million.

(1) Commencing January 1, 2015, the Company applies generally accepted accounting principles in the United States regarding employee rights. Comparative figures for previous periods have not been restated. For information on the accumulated effect of initial implementation, see Note 2.C.1 above.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

A. Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31 2015		December 31	
	Average annual interest rate		Consolidated	
			December 31	
	On daily balance	On transactions in the last month	2015	2014
	%	%	In NIS millions	
Credit risk not under bank guarantee				
Individuals (1)			**389**	**359**
Of which: debtors in respect of credit cards (2)			389	359
Of which: credit			-	-
Commercial			**123**	**108**
Of which: debtors in respect of credit cards (2)	-	-	109	77
Of which: credit (2) (3)	3.6	4.2	14	31
Total credit risk not under bank guarantee			**512**	**467**
Credit risk under bank and other guarantee				
Debtors in respect of credit cards	-	-	1,779	1,471
International credit-card organization			18	20
Income receivable			3	3
Others			2	1
Total debtors in respect of credit-card activity			**2,314**	**1,962**

(1) Individuals as defined in the Public Reporting Directives on page 621-5 regarding "Total credit risk by economy sector on consolidated basis".

(2) Debtors in respect of credit cards - before interest charges. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit – credit not to cardholders and other transactions.

(3) Of which: credit to merchants in the amount of NIS 14 million (December 31, 2014 – NIS 31 million). This amount includes advance payments to merchants in the amount of NIS 13 million (December 31, 2014 – NIS 30 million).

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Debts[1] and Off-Balance Sheet Credit Instruments

Allowance for credit losses

1. Change in balance of allowance for credit losses

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[2]	Total
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]		
Balance of allowance for credit losses as at 31.12.2014	11	-	2	-*	1	14
Expenses (income) in respect of credit losses	4	-	2	(-*)	-*	6
Charge-offs	(5)	-	(-*)	(-*)	-	(5)
Recovery of debts charged off in previous years	1	-	-*	-[4]	-	1
Net charge-offs	**(4)**	**-**	**(-*)**	**(-*)**	**-**	**(4)**
Balance of allowance for credit losses as at 31.12.2015**	**11**	**-**	**4**	**-***	**1**	**16**
**** Of which:**						
In respect of off-balance-sheet credit instruments	2	-	1	-*	-*	3
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

A. Debts[1] and Off-Balance Sheet Credit Instruments

Allowance for credit losses

1. Change in balance of allowance for credit losses

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee [2]	Total
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]		
Balance of allowance for credit losses as at 31.12.2013	11	-	1	1	1	14
Expenses (income) in respect of credit losses	1	-	1	(1)	-*	1
Charge-offs	(3)	-	-*	(-*)	-	(3)
Recovery of debts charged off in previous years	2	-	-*	-[4]	-	2
Net charge-offs	**(1)**	**-**	**-***	**(-*)**	**-**	**(1)**
Balance of allowance for credit losses as at 31.12.2014**	**11**	**-**	**2**	**-***	**1**	**14**
**** Of which:**						
In respect of off-balance-sheet credit instruments	3	-	-*	-*	-*	3
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Debts[(1)] and Off-Balance Sheet Credit Instruments (cont.)

1. Change in balance of allowance for credit losses (cont.)

	For the year ended December 31, 2013					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee [(2)]	
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[(3)]		Total
Balance of allowance for credit losses as at 31.12.2012	11	-	1	1	1	14
Expenses (income) in respect of credit losses	1	-	-*	(-*)	-*	1
Charge-offs	(4)	-	-*	(-*)	-	(4)
Recovery of debts charged off in previous years	3	-	-*	-[(4)]	-	3
Net charge-offs	**(1)**	**-**	**-***	**(-*)**	**-**	**(1)**
Balance of allowance for credit losses as at 31.12.2013**	**11**	**-**	**1**	**1**	**1**	**14**
**** Of which:**						
In respect of off-balance-sheet credit instruments	3	-	1	-*	-*	4
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit card activity, bank deposits and other debts.

(2) Debtors in respect of credit cards under bank guarantee, bank deposits, international credit-card organization, income receivable, and other debtors.

(3) Income-bearing credit – this credit includes credit not to credit card holders and other transactions.

(4) Collection from merchants is performed by offsetting new sales vouchers captured by the system.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Debts[1] and Off-Balance Sheet Credit Instruments (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]	Credit risk under bank and other guarantee [2]	Total
Recorded debt balance of debts						
Examined on an individual basis	-*	-	49	7	-	56
Examined on a collective basis	389	-	60	7	2,348	2,804
Total debts	**389**	**-**	**109**	**14**	**2,348**	**2,860**
Allowance for credit losses in respect of debts						
Examined on an individual basis	-*	-	1	-*	-	1
Examined on a collective basis	9	-	2	-*	1	12
Total allowance for credit losses	**9**	**-**	**3**	**-***	**1**	**13**

See notes below.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

A. Debts[(1)] and Off-Balance Sheet Credit Instruments (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[(3)]	Credit risk under bank and other guarantee [(2)]	Total
Recorded debt balance of debts						
Examined on an individual basis	1	-	36	20	-	57
Examined on a collective basis	358	-	41	11	1,944	2,354
Total debts	**359**	**-**	**77**	**31**	**1,944**	**2,411**
Allowance for credit losses in respect of debts						
Examined on an individual basis	1	-	1	-*	-	2
Examined on a collective basis	7	-	1	-*	1	9
Total allowance for credit losses	**8**	**-**	**2**	**-***	**1**	**11**

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit card activity, bank deposits and other debts.

(2) Debtors in respect of credit cards under bank guarantee, bank deposits, international credit-card organization, income receivable, and other debtors.

(3) Income-bearing credit – this credit includes credit not to credit card holders and other transactions.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts[(1)]

1. Credit quality and arrears

	December 31, 2015					
		Problematic[(2)]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [(3)]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [(4)]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	382	6	1	389	-	2
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	105	3	1	109	-	-*
Credit	14	-*	-*	14	-	-*
Debts under bank and other guarantee (5)	**2,348**	**-**	**-**	**2,348**	**-**	**-**
Total	**2,849[(6)]**	**9**	**2**	**2,860**	**-**	**2**

See notes below.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts[1]

1. Credit quality and arrears

	December 31, 2014					
		Problematic[2]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [4]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	352	5	2	359	-	1
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	76	1	-*	77	-	-*
Credit	31	-*	-*	31	-	-*
Debts under bank and other guarantee (5)	**1,944**	**-**	**-**	**1,944**	**-**	**-**
Total	**2,403**[6]	**6**	**2**	**2,411**	**-**	**1**

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.

(2) Impaired, substandard and special mention debts.

(3) Impaired debts not accruing interest income. For information on certain impaired debts that underwent troubled debt restructuring, see Note 10.C.2.C. below.

(4) Debts in arrears of 30 to 80 days have been classified as unimpaired problematic debts not accruing interest income.

(5) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

(6) Of which: credit risk in the amount of NIS 2,843 million (December 31, 2014 – NIS 2,400 million) whose credit rating at the date of the report agrees with the credit rating for new credit performance pursuant to the policy of the Company.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Credit Quality

Arrears are monitored routinely, and constitute one of the key indicators of credit quality. The state of the arrears affects the classification of debts evaluated on a collective basis (the classification is more severe with more extensive arrears). After 150 days of arrears, the Company charges off the debt.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts[(1)] (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2015				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists (3)	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	-*	-*	1	1	1
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	-*	-*	1	1	1
Credit	-*	-*	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**	**-**	**-**
Total**	**-***	**-***	**2**	**2**	**2**
** Of which:					
Debts in troubled debt restructuring	**-***	**-***	**-**	**-***	**-***

See notes below.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts[(1)] (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2014				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists (3)	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	1	1	1	2	2
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	-*	-*	-*	-*	-*
Credit	-*	-*	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**	**-**	**-**
Total**	**1**	**1**	**1**	**2**	**2**
** Of which:					
Debts in troubled debt restructuring	**1**	**1**	**-**	**1**	**1**

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Recorded debt balance.
(3) Individual allowance for credit losses.
(4) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts(1) (cont.)

2. Additional information regarding impaired debts (cont.)

b. Average balance of impaired debts (2) (3)

	For the year ended December 31		
	2015	**2014**	**2013**
Debts not under bank guarantee			
Private individuals			
Debtors in respect of credit cards	1	2	2
Credit	-	-	-
Commercial			
Debtors in respect of credit cards	-*	-*	-*
Credit	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**
Total	**1**	**2**	**2**

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts[(1)] (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring [(3)]

	For the year ended December 31	
	2015	**2014**
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	-*	1
Credit	-	-
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**
Total	**-***	**1**

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.

(2) Average recorded debt balance of impaired debts examined individually in the reporting period.

(3) Not accruing interest income.

(4) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts(1) (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2015				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	297	2	2	49	-*
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	43	-*	-*	11	-*
Credit	-	-	-	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**340**	**2**	**2**	**60**	**-***

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts(2) (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2014				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	355	2	2	58	-*
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	24	-*	-*	4	-*
Credit	7	-*	-*	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**386**	**2**	**2**	**62**	**-***

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

Note 10 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

C. Debts (1) (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2013				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	553	4	4	83	1
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	37	-*	-*	3	-*
Credit	4	-*	-*	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**594**	**4**	**4**	**86**	**1**

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

Note 10A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

	December 31, 2015			
		Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	321,992	392	375	108
Borrower balances over 5 and up to 10	127,000	465	400	446
Borrower balances over 10 and up to 15	66,758	332	248	500
Borrower balances over 15 and up to 20	29,102	220	154	288
Borrower balances over 20 and up to 30	26,760	257	169	391
Borrower balances over 30 and up to 40	9,270	137	90	186
Borrower balances over 40 and up to 80	7,027	190	141	171
Borrower balances over 80 and up to 150	1,389	89	73	54
Borrower balances over 150 and up to 300	478	62	52	33
Borrower balances over 300 and up to 600	147	34	24	25
Borrower balances over 600 and up to 1,200	53	28	18	15
Borrower balances over 1,200 and up to 2,000	13	14	7	6
Borrower balances over 2,000 and up to 4,000	15	25	14	15
Borrower balances over 4,000 and up to 8,000	6	22	1	17
Borrower balances over 8,000 and up to 20,000	4	42	13	22
Borrower balances over 20,000 and up to 40,000	-	-	-	-
Total	590,014	2,309	1,779	2,277
Income receivable	-	5	-	-
Total	**590,014**	**2,314**	**1,779**	**2,277**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(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 a borrower (excluding credit facilities at the responsibility of banks).

Note 10A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

	December 31, 2014			
		Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	323,794	338	324	94
Borrower balances over 5 and up to 10	106,590	420	359	349
Borrower balances over 10 and up to 15	59,826	295	220	453
Borrower balances over 15 and up to 20	27,560	192	131	291
Borrower balances over 20 and up to 30	25,621	224	143	393
Borrower balances over 30 and up to 40	8,190	109	70	178
Borrower balances over 40 and up to 80	5,769	144	103	149
Borrower balances over 80 and up to 150	1,043	64	49	43
Borrower balances over 150 and up to 300	284	35	27	21
Borrower balances over 300 and up to 600	99	27	20	13
Borrower balances over 600 and up to 1,200	38	19	13	12
Borrower balances over 1,200 and up to 2,000	15	16	7	7
Borrower balances over 2,000 and up to 4,000	7	13	5	6
Borrower balances over 4,000 and up to 8,000	7	22	-	18
Borrower balances over 8,000 and up to 20,000	3	12	-	16
Borrower balances over 20,000 and up to 40,000	2	28	-	29
Total	**558,848**	**1,958**	**1,471**	**2,072**
Income receivable	-	4	-	-
Total	**558,848**	**1,962**	**1,471**	**2,072**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(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 a borrower (excluding credit facilities at the responsibility of banks).

Note 11 – Computers and Equipment

Reported amounts

In NIS millions

	Computers and equipment	Furniture and office equipment	Software costs[1]	Other	Total
Cost:					
As at December 31, 2014	1	1	6	4	12
Additions	-	-	1	-	1
As at December 31, 2015	**1**	**1**	**7**	**4**	**13**
Accrued depreciation:					
As at December 31, 2014	1	1	4	4	10
Additions	-*	-*	3	-	3
As at December 31, 2015	**1**	**1**	**7**	**4**	**13**
Depreciated balance as at December 31, 2015	**-***	**-***	**-***	**-**	**-***
Depreciated balance as at December 31, 2014	-*	-*	2	-	2
Weighted average depreciation rate in % in 2015	25.0	9.9	25.0	-	
Weighted average depreciation rate in % in 2014	25.0	9.9	25.0	-	

* Amount less than NIS 0.5 million.

(1) Includes capitalized software costs, in an amount NIS 1 million, similar to the previous year.

Note 12 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2015	**2014**
Deferred taxes receivable, net (see Note 22)	8	8
Surplus of advance income-tax payments over current provisions	1	1
Other debtors and debit balances:		
Prepaid expenses	7	5
Related companies*	531	434
Others	2	1
Total other debtors and debit balances	540	440
Total other assets	**549**	**449**

* This balance is unlinked, and bears interest at the rate commonly used at Bank Hapoalim B.M. for weekly short-term deposits.

Note 13 – Credit from Banking Corporations

Reported amounts

In NIS millions

	As at December 31		As at December 31	
	Average annual interest rate		2015	2014
	For daily balance	For transactions in the last month		
	%	%		
Credit in current debit accounts	**0.77**	**0.57**	**4**	**2**

Note 14 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2015	**2014**
Merchants (1)	2,393	2,003
Prepaid income	5	2
Provision for loyalty program	75	67
Expenses payable	13	16
Others	24	20
Total creditors in respect of credit-card activity	**2,510**	**2,108**

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 80 million as at December 31, 2015 (December 31, 2014 - NIS 55 million).

Note 15 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2015	**2014**
Surplus reserves over provision for employee rights (see Note 8)	**2**	**2**
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	-*	-*
Suppliers of services and equipment	6	2
Expenses payable	4	4
Institutions	4	3
Allowance for credit losses in respect of off-balance-sheet liabilities	3	3
Others	-*	1
Total other creditors and credit balances	17	13
Total other liabilities	**19**	**15**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits

Reported amounts

In NIS millions

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.

A. Benefits at end of employment and post-employment

	December 31 2015
Early retirement	
Amount of liability	1
Fair value of plan assets	-
Surplus liability over plan assets**	**1**
Grant for non-utilization of sick days	
Amount of liability	1
Fair value of plan assets	-
Surplus liability over plan assets**	**1**
Other benefits at end of employment and post-employment	
Amount of liability	-*
Fair value of plan assets	-
Surplus liability over plan assets**	**-***
Total	**2**

* Amount less than NIS 0.5 million.

** Included in "Other Liabilities"

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan

1. Commitments and financing status

a. Change in commitment in respect of forecast benefit

	For the year ended December 31, 2015
	Bank employees on loan
Commitment in respect of forecast benefit at beginning of period	**2**
Service cost	-*
Interest cost	-*
Actuarial loss (profit)	(-*)
Commitment in respect of forecast benefit at end of period	**2**
Commitment in respect of cumulative benefit at end of period	**2**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

b. Amounts recognized in the consolidated balance sheet

	For the year ended December 31, 2015
	Bank employees on loan
Amounts recognized in "Other Liabilities"	2
Net liabilities recognized at end of the period	**2**

c. Amounts recognized in cumulative other comprehensive loss, before effect of tax

	For the year ended December 31, 2015
	Bank employees on loan
Actuarial loss (profit), net	(-*)
Closing balance in cumulative other comprehensive loss	**(-*)**

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	For the year ended December 31, 2015
	Bank employees on loan
Commitment in respect of forecast benefit	2
Fair value of plan assets	-

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31, 2015
	Bank employees on loan
Service cost	-*
Interest cost	-*
Subtraction of unrecognized amounts:	
Net actuarial loss	(-*)
Net total benefit cost	**-***

b. Changes in plan assets and in benefit commitments recognized in other comprehensive loss, before effect of tax

	For the year ended December 31, 2015
	Bank employees on loan
Net actuarial loss for the period	(-*)
Total recognized in other comprehensive loss	(-*)
Net total benefit cost	-*
Total recognized in net benefit cost for the period and in other comprehensive loss	**-***

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period (cont.)

c. Estimate of amounts included in cumulative other comprehensive income and expected to be subtracted from cumulative other comprehensive loss to the statement of profit and loss as income in 2015, before effect of tax

	For the year ended December 31, 2015
	Bank employees on loan
Net actuarial loss	-*
Total expected to be subtracted from cumulative other comprehensive income	**-***

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	As at December 31, 2015
	Bank employees on loan
Discount rate	1.6%
Rate of increase in CPI	2.0%
Employee turnover rate	-(1)
Rate of growth of remuneration	0.5%-7.5%

(1) Rates for staff turnover with increased severance pay and early retirement were determined based on Bank Hapoalim's experience, taking into consideration the employee's age and gender. Turnover rates reflect the expectations and resolutions of Management with regard to employee retirement under preferred terms, and are based on research conducted among employees of Bank Hapoalim, encompassing turnover data beginning as of 1997. Current turnover rates were updated based on a study of Bank Hapoalim employee turnover. In addition, early retirement rates under preferred terms were adjusted to take into account Management expectations for employee retirement in 2014 – 2017 and from 2018 and thereafter.

2. Principal assumptions used to measure net benefit cost for the period

	For the period ended December 31, 2015
	Bank employees on loan
Discount rate	1.54%
Rate of growth of remuneration	0.5%-7.5%

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions (cont.)

b. Effect of a one percentage point change on the commitment in respect of the forecast benefit, before effect of tax

For the period ended December 31, 2015		
	One percentage point increase	One percentage point decrease
	Bank employees on loan	
Discount rate	(-*)	-*
Rate of increase in CPI	(-*)	-*
Employee turnover rate	-*	(-*)
Rate of growth of remuneration	-*	-*

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions (cont.)

c. Future benefit payments expected by the Company

	Bank employees on loan
2016	-*
2017	-*
2018	-*
2019	-*
2020	-*
2021-2025	-*
2026 and thereafter	1
Total	**1**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

C. Personal Contracts

1. Personal Contract with the Previous Chief Executive Officer

The previous Chief Executive Officer, Mr. Ronen Stein, served as CEO from February 1, 2015 until February 1, 2016. The previous CEO was employed under a personal contract with Bank Hapoalim and with the Company. The previous CEO was a Bank employee on loan during the time he was the CEO of Isracard.

On November 3, 2014, the Board of Directors and the Board of Directors of Bank Hapoalim gave their approval to Mr. Stein as CEO of the Company and his remuneration in accordance with the Employment Agreement, this following the approval of the Salary and Remuneration Committee of the Company and the approval of the Remuneration Committee of Bank Hapoalim, Mr. Stein also served as CEO of Isracard Ltd. and Europay (Eurocard) Israel Ltd.

According to the Employment Agreement, the former CEO was entitled to fixed remuneration paid to senior executives in Bank Hapoalim in accordance with the Remuneration Plan of Bank Hapoalim (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions) and variable remuneration according to the Company's Remuneration Plan.

On February 2, 2016, Mr. Ron Weksler began serving as Chief Executive Officer of the Company.

2. Mr. Dov Kotler

Mr. Dov Kotler finished his tenure as Chief Executive Officer of the Company at the end of January 2015. See also Note 13 to the financial statements as of December 31, 2014.

Note 16 – Employee Benefits (cont.)

D. Bonus Plan for the Previous Chief Executive Officer

As part of the Employment Agreement of the former Chief Executive Officer of the Company, Mr. Ronen Stein, as mentioned above, it was decided that with regard to variable remuneration, the previous CEO is subject to the Company's bonus plan, approved in accordance with its Remuneration Policy (hereinafter in this section: **"the Plan"**).

Pursuant to the Plan, in each year of distribution, and subject to compliance with threshold requirements, a target bonus would be determined for the former CEO, at a certain percentage of the average bonus budget for members of Management of Bank Hapoalim, according to the Remuneration Plan of Bank Hapoalim ("the target bonus"). Determining the annual bonus to the previous CEO in a specific year, which may reach up to a rate of 120% of the target bonus, shall be in accordance with the score given to the previous CEO each year to be determined by the use of performance targets derived from a compliance percentage of the profit target to be determined each year, and individual targets (KPIs - Key Performance Indicators). The bonus is limited to a ceiling of the lower of the fixed remuneration for the bonus year and the amount of NIS 2.16 million (linked to the Consumer Price Index for January 2014.

E. Vacations

The Company's employees and employees on loan 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 related expenses. The balance of the provision at the balance-sheet date totaled less than NIS 0.5 million, similar to the corresponding period in the previous year.

F. Agreement with Employee Union

On December 25, 2013, the Company signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, a job description manual was agreed upon.

G. Remuneration Policy

On August 13, 2015, the Banking Supervision Department published a circular updating Proper Conduct of Banking Business Directive No. 301A on Remuneration Policy in Banking Corporations and Credit Card Companies. Pursuant to publication of the circular, the Company prepared for implementation of the update to the Directive.

Note 17 – Shareholders' Equity

A. Composition

	December 31, 2015		December 31, 2014	
	Registered	Issued and paid-up	Registered	Issued and paid-up
	In NIS			
Common shares of par value NIS 1 each	500,000	139,326	500,000	139,326

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department

As of January 1, 2014, the Company applies the Measurement and Capital Adequacy Directives based on the Basel III directives (hereinafter: **"Basel III"**) as published by the Banking Supervision Department and as integrated in Proper Conduct of Banking Business Directives 201-211.

Adopting Basel III directives

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directive Nos. 201-211 on Measurement and Capital Adequacy, to conform with the provisions of Basel III.

Basel III directives set forth significant changes in the calculation of regulatory capital requirements, inter alia, with regard to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk

The amendments to the above directives came into effect on January 1, 2014, with gradual application in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy - Regulatory Capital - Transitional Provision", in order to facilitate compliance with the new requirements for regulatory capital in the framework of the implementation of Basel III, and to set a transitional period until they are fully implemented. The transitional provisions relate, among other things, to regulatory adjustments and deductions from capital, and equity instruments that are not eligible for inclusion in regulatory capital in accordance with the new criteria set out in the Basel directives. In particular, in accordance with the transitional provisions, the regulatory adjustments and deductions from capital as well as minority rights are not eligible for inclusion in regulatory capital are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018.

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

Capital instruments no longer eligible as regulatory capital were recognized up to a ceiling of 80% from January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022. From January 1, 2015 to December 31, 2015, the rate of reduction from regulatory capital stands at 40%.

Minimum capital ratios

On May 30, 2013, the Supervisor of Banks published a circular to all the banking corporations and credit card companies regarding minimum capital ratios as part of preparations for implementing Basel III directives. Pursuant to the circular, all the banking corporations and credit card companies will be required to comply with a Tier 1 shareholders' equity minimum ratio of 9%, by January 1, 2015. In addition, a particularly significant banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets in the Israeli banking sector, is required to maintain a Tier 1 shareholders' equity minimum ratio of 10%, by January 1, 2017.

It was also determined that the minimum total capital ratios will be, from January 1, 2015, 12.5% for the entire banking sector and 13.5% for particularly significant banking corporation, by January 1, 2017. On May 20, 2014, the Board of Directors approved the minimum capital ratio targets, as above.

Note 17 – Shareholders’ Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

Reported amounts

In NIS millions

A. Capital components for the calculation of the capital ratio pursuant to Basel III

Calculated pursuant to Proper Conduct of Banking Business Directive Nos. 201-211, 299, on Capital Measurement and Adequacy”.

	As at December 31	
	2015	**2014**
1. Capital for purposes of calculating capital ratio		
Tier 1 shareholders’ equity and Tier 1 capital (1)	332	292
Tier 2 capital	16	13
Total overall capital	**348**	**305**
2. Weighted balances of risk assets		
Credit risk	1,742	1,545
Market risk	8	12
Operational risk	411	381
Total weighted balances of risk assets	**2,161**	**1,938**
3. Ratio of capital to risk components		
Tier 1 shareholders’ equity and Tier 1 capital to risk components	15.4%	15.1%
Overall capital ratio to risk components	16.1%	15.7%
Minimum Tier 1 shareholders’ equity ratio required by the Banking Supervision Department (2)	9.0%	9.0%
Minimum overall capital ratio required by the Banking Supervision Department (2)	12.5%	12.5%

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

Reported amounts

In NIS millions

B. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

Capital ratio to risk components

Tier 1 shareholders' equity ratio to risk components before and after implementation of the effect of the transitional provisions in Directive 299	15.4%	15.1%

(1) Including expected effect of initial adoption of US GAAP on employee rights, according to expected data as at January 1, 2015.

(2) Minimum capital ratios required pursuant to the directives of the Supervisor of Banks applicable from January 1, 2015.

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

Leverage ratio

In April 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in banking corporations and credit card companies (hereinafter: **"Banking Corporation"**) .

The leverage ratio is expressed as a percentage, and is defined as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account transitional arrangements that were set. The total exposure measurement of the Company is the amount of balance-sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items. As a rule, this measurement will be consistent with the accounting values and risk weightings are not taken into account. In addition, the Company is not allowed to use physical or financial collateral, guarantees or other techniques for mitigating credit risk, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. A banking corporation is required to comply with the minimum leverage ratio from 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018.

Below is the leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218

	As at December 31, 2015
Tier 1 capital (in NIS millions)	332
Total exposures (in NIS millions)	3,892
Leverage ratio	8.5%
Minimum leverage ratio required by the Banking Supervision Department	5.0%

Note 18 – Contingent Liabilities and Special Commitments

Reported amounts

In NIS millions

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2015	**2014**
Unutilized credit-card credit lines:		
Credit risk on the Company	2,267	2,041
Credit risk on banks	6,765	6,128
Allowance for credit losses	(3)	(3)
Total unutilized credit-card credit lines, net	**9,029**	**8,166**
Other liabilities:		
Exposure in respect of merchant credit lines	10	31
Allowance for credit losses	(-*)	(-*)
Total other liabilities, net	**10**	**31**

* Amount less than NIS 0.5 million.

B. Antitrust Issues and Regulatory Initiatives

1. Antitrust issues

Pursuant to an arrangement between the Company and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "**Arrangement**"), the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

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

B. Antitrust Issues and Regulatory Initiatives (cont.)

2. Regulatory initiatives

A. In August 2011, Amendment No. 18 to the Banking Law (Licensing) was published in the Official Gazette, determining, inter alia, that a body dealing with the clearing of debit card transactions is to obtain a clearing license. Later, in December 2013, the Banking Supervision Department published the process for obtaining a clearing license and the criteria and general conditions for a controlling interest and a holder of means of control in a clearing license applicant. In November 2015, the Banking Supervision Department published a revised draft of the process of obtaining a clearing license. The draft, inter alia, detailed the capital requirements from a clearer, and set certain provisions regarding the manner of holding funds not yet transferred to the vendors, information security, working under the EMV standard, compliance with the law and more. Together with the draft, the Banking Supervision Department issued a press release stating that, inter alia: new clearers receiving a license from the Bank of Israel will be allowed to connect to a credit card system by means of hosting on infrastructure of an existing clearer, based on an agreement to be signed between them; the minimum core of control for owning a clearer was reduced as set out in the revised draft; the financial strength of the controlling shareholder of a clearer was also reduced in accordance with that stated in the revised draft and the a list of entities able to comprise a core of control in a clearer was expanded.

B. In February 2015, the Bank of Israel published recommendations and measures to extend the distribution and use of debit cards in Israel and to increase competition in the area of debit cards. Among the recommendations is, inter alia, that the Banking Supervision Department will determine instructions for distributing debit cards to bank customers and for the immediate financial settlement of debit card transactions and the manner of presentation of the details of transactions carried out with the card. In June 2015, the Banking Supervision Department published several provisions aimed at the implementation of these recommendations, including implementation timetables, and in August 2015 a temporary order was published in the Official Gazette, which the Governor of the Bank of Israel declared that the interchange fee for debit card transactions is under supervision and the rate was set at 0.3% of the transaction amount for the year starting April 1, 2016.

C. In May 2015, a private member's bill was tabled in the Knesset for increasing competition in the area of credit - the separation of ownership of credit card companies from the banks. In June 2015, the Ministerial Committee for Legislative Affairs decided to postpone the discussion of the bill until after publication of the Strum Committee's conclusions and achieved understandings between the Justice and Finance Ministries. In November 2015, the Ministerial Committee for Legislative Affairs decided to postpone the discussion of the bill for three months. Another private member's bill regarding the separation between credit card companies and the banks was tabled in the Knesset in June 2015.

D. Together with that previously mentioned on the issue of debit cards, in June 2015 the Banking Supervision Department issued a directive for assimilation of the use of the EMV security standard, both in issuance and in clearing. The directive sets forth, inter alia, timetables for issuing cards that support the EMV standard and for connecting terminals supporting the standard, as well as the entry into force of a mechanism for shifting responsibility from the issuer to the clearer.

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

B. Antitrust Issues and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

E. In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a committee for increasing competitiveness in banking and financial services commonly provided to households and small businesses (the Strum Committee). The Committee is to make recommendations on adding new players in this field, including through separation of credit card companies from ownership of the banks. The Committee was also charged with recommending complementary measures required, and removing barriers to entry of players and increasing competition as stated. On December 14, 2015, the Committee's Interim Report was published, which recommended, among other things: separating credit card companies from the major banks within 3 years from the date of adoption of the Committee's conclusions in legislation; setting limits on those entities permitted to purchase the credit card companies; increasing competition in the clearing market (by setting lenient conditions for granting a clearing license, reducing the interchange fee no later than 2018, moving from monthly to daily clearing within a few years), to allow credit card companies that were separated to use information held by them arising from the operation of issuance and clearing activity; requiring all the banks to distribute all credit cards on equal terms; prohibiting the large banks from issuing credit cards for four years and to allow them to issue debit cards; allowing credit card companies that were separated to issue credit cards in cooperation with banks (that are not the major banks) or financial institutions up to 25% of their credit-card lines, and leaving supervision of the credit card companies with the Bank of Israel. Regarding some of the recommendations, there were differing views of some of the members of the Committee. The Committee appealed to the public make known to it their position on the interim conclusions by February 7, 2016. The Company submitted its position to the Committee. The Committee will hold hearings in February 2016.

F. Further to that mentioned in paragraph B. above, in July 2015 the Knesset plenum approved on first reading a bill to reduce the use of cash that was published in January 2015 and approved by the Ministerial Committee for Legislation in May 2015, which was aimed at implementation of the report of the Committee to examine reducing the use of cash in the Israeli economy, while gradually fixing setting limits on the use of cash and negotiable checks in order to reduce the phenomenon of the "black" economy in Israel, fight crime and money laundering, and to allow use of advanced and efficient means of payment. Among other things, the bill granted authority to the Antitrust Commissioner to establish interchange fee rates for debit card transactions. The bill provides that the terms of its application is that a debit card is a product available that is similar to deferred debit cards.

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

B. Antitrust Issues and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

G. In July 2015, an amendment came into force to the Banking Regulations relating to fees, according to which the number of commissions collected from small businesses receiving clearing services was reduced, by setting a uniform price list of common services in the area. Furthermore, according to the amendment, the rules relating to fees charged to credit card holders were amended, such as the consolidation of rules concerning the collection of conversion fees. In addition, as of July 2015, an Order entered into force limiting the maximum amount of the fee that may be charged for "notice and alert message" services and an Order limiting the maximum amount of the fee for service provided by a clearer to a discount service provider in debit card transactions.

H. In August 2015, the Bank of Israel published an interim report on the "Chain of Execution in Debit Card Transactions", which includes recommendations to increase competition, efficiency and stability of the credit card market, and according to the Bank of Israel is expected to remove barriers existing in the market and to allow the entry of new players.

I. In November 2015, the Knesset plenum approved on second and third reading, as part of the Economic Arrangements Law, the Economic Plan Law for the years 2015 and 2016, in which, among other things, non-banking institutions can raise capital by issuing debt certificates to the public. Increasing the sources of funding will, among other things, enhance the competitive strength of the non-banking entities relative to the banking system in providing credit to households and small and medium businesses, and thereby reduce the cost of credit in the retail credit sector.

The above multiplicity of regulatory steps, as may be implemented, may have a material adverse effect on the Company's operations, but its extent cannot currently be estimated.

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

C. Legal Proceedings and Pending Claims

As at the date of the report, several legal claims have been filed against the Company, arising in the ordinary course of its business, in immaterial amounts, as well class action lawsuits. Based on the opinion of its legal advisors, the Company estimates that the financial statements include appropriate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

1. In April 2014, the Company and Isracard received a claim and a petition for its certification as a class action. The personal claim is approximately NIS 145, and the amount of the class action was not specified. According to the plaintiff, which is a business bound by clearing agreements with the respondents, the defendants acted unlawfully, in that they charged it a minimum fee while it was bound by agreement in parallel with a discounting company, under which the discounting company discounts some of the transactions it settled by means of the defendants without taking into account the amounts credited to the discounting company. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting firm.

2. In July 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action against the companies and another credit card company. The personal claim is approximately NIS 17, and the class action is estimated only at the amount of NIS 200 million. According to the plaintiffs, the manner according to which the companies perform the conversion to shekels for transactions made in foreign currency is for an additional fee for which no proper disclosure was made to customers, and that thereby the Company violates various provisions of the law. The Company filed a motion to dismiss the motion outright. In January 2015, the Court ruled that the hearing would be held together with the hearing of a similar lawsuit filed against the banks. On March 8, 2015, a preliminary hearing was held in the case and the Court ordered the submission of revised applications for approval, to which the respondents will respond and in which framework all the arguments have to be raised and not as part of a motion for dismissal out of hand. A revised petition for approval and a reply were submitted on behalf of the companies. The case has been set for evidence.

Also pending against the Company are lawsuits and petitions for their approval as class actions, as detailed below, which in the opinion of the Company, based on its legal counsel, it is not possible at this stage to evaluate the chances of these legal proceedings, and therefore no provision was made in respect thereof.

In June 2015, the Company, Isracard and Europay received a lawsuit and a motion for its approval as a class action. According to the petitioner, the respondents do not inform their customers that it is not possible to make transactions with some overseas merchants with a credit card that does not have a chip. The remedy sought is, inter alia, the immediate issuance of cards with a chip to all international card holders, compensation for customers who were unable to use their card, reimbursement of the difference between the cost of an international card and a local card, for the prior 7 years. The personal claim is approximately NIS 250, and the damage to the group of plaintiffs was not assessed. A preliminary hearing was held in the case.

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

C. Legal Proceedings (cont.)

D. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

E. Agreement with Isracard

The Company has an agreement with Isracard for the operation of the Company's activity in issuing credit cards and clearing in Israel of transactions executed with merchants using American Express cards. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's activity in the operation of this arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties; see Note 23, "Interested and Related Parties," below.

F. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim B.M. (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., First International Bank of Israel Ltd., Mizrahi-Tefahot Bank Ltd., Jerusalem and Bank Ltd., Union Bank Ltd. (jointly, the "**Banks under Arrangement**").

The agreements with the Banks under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the card arrangement to the Company. Each bank under Arrangement is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank under Arrangement. In the framework of the previously mentioned various agreements, payment settlements and relevant conditions are also included vis-à-vis each bank under Arrangement.

G. Extension of the Agreement with American Express Ltd.

The agreement with the international American Express Organization was renewed, for a period of seven additional years, in April 2010. Under this agreement, the Company continues to use the concession for the issuance and clearing of American Express credit cards. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

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

C. Legal Proceedings (cont.)

H. Contractual Engagements with Clubs

Within the activity of customer clubs, the Company entered into agreements with various entities representing various customer groups, in arrangements for the issuance of credit cards to the members of those customer groups (the "Club Members"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the 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 includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as "Hever" cards for regular army personnel and retirees, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, the Life-Style Club, and the El Al Flycard.

Note 19 – Operating Segments

(1) A. General

The Company issues, clears, and operates American Express credit cards issued for use in Israel and abroad. The Company's activities are managed through two main operating segments: the Issuance Segment, which handles cardholders, and the Clearing Segment, which handles merchants.

The Issuance Segment

Customers register for the credit-card system by signing a credit-card contract with the Company. The Company issues American Express credit cards under a license from American Express Ltd. All income and expenses related to customer recruitment and routine handling were allocated to the Issuance Segment.

Main income items – interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer, card fees, deferred-debit fees, and fees from transactions abroad.

Main expenses – marketing, advertising, and management of customer clubs; points program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and joint sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items – fees from merchants, net of interchange fees which are allocated to the Issuance Segment.

Main expenses – recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 19 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2015		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	74	294	368
Inter-segmental fees	117	(117)	-
Total	191	177	368
Net interest income	-*	1	1
Other income (expenses)	(3)	1	(2)
Total income	**188**	**179**	**367**
Expenses			
In respect of credit losses	6	(-*)	6
Operating expenses	82	38	120
Sales and marketing expenses	66	10	76
General and administrative expenses	17	13	30
Payments to banks	30	50	80
Total expenses	**201**	**111**	**312**
(Loss) profit before taxes	(13)	68	55
Provision for taxes on profit	(4)	19	15
Net (loss) profit	**(9)**	**49**	**40**
Return on equity (percent net profit out of average capital)	(3.5%)	92.2%	12.9%
Average balance of assets	2,286	291	2,577
Average balance of liabilities	105	2,162	2,267
Average balance of risk-adjusted assets	1,658	343	2,001

* Amount less than NIS 0.5 million.

Note 19 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2014		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	57	275	332
Inter-segmental fees	104	(104)	-
Total	161	171	332
Net interest income (expenses)	-*	3	3
Other income	4	(1)	3
Total income	**165**	**173**	**338**
Expenses			
Provision for credit losses	1	(*-)	1
Operating expenses	65	32	97
Sales and marketing expenses	59	10	69
General and administrative expenses	15	13	28
Payments to banks	33	49	82
Total expenses	**173**	**104**	**277**
(Loss) profit before taxes	(8)	69	61
Provision for taxes on profit	(2)	18	16
Net (loss) profit	**(6)**	**51**	**45**
Return on equity (percent net profit out of average capital)	(2.6%)	**	16.7%
Average balance of assets	2,086	293	2,379
Average balance of liabilities	121	1,989	2,110
Average balance of risk-adjusted assets	1,561	292	1,853

* Amount less than NIS 0.5 million.

** More than 100%.

Note 19 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	49	268	317
Inter-segmental fees	103	(103)	-
Total	152	165	317
Net interest income (expenses)	(*-)	5	5
Other income	1	*-	1
Total income	**153**	**170**	**323**
Expenses (income)			
Provision for credit losses	1	(*-)	1
Operating expenses	55	39	94
Sales and marketing expenses	52	10	62
General and administrative expenses	14	13	27
Payments to banks	35	47	82
Total expenses	**157**	**109**	**266**
(Loss) profit before taxes	(4)	61	57
Provision for taxes on profit	(1)	15	14
Net (loss) profit	**(3)**	**46**	**43**
Return on equity (percent net profit out of average capital)	(1.6%)	**	19.3%
Average balance of assets	1,978	268	2,246
Average balance of liabilities	117	1,906	2,023
Average balance of risk-adjusted assets	1,486	249	1,735

* Amount less than NIS 0.5 million.

** More than 100%.

Note 20 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2015					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	3	-	12	-	-	15
Debtors in respect of credit-card activity, net	2,228	10	57	6	-	2,301
Computers and equipment	-	-	-	-	-*	-*
Other assets	542	-	-	-	7	549
Total assets	**2,773**	**10**	**69**	**6**	**7**	**2,865**
Liabilities						
Credit from banking corporations	-	-	-	4	-	4
Creditors in respect of credit-card activity	2,432	11	62	-*	5	2,510
Other liabilities	19	-	-*	-	-	19
Total liabilities	**2,451**	**11**	**62**	**4**	**5**	**2,533**
Difference	**322**	**(1)**	**7**	**2**	**2**	**332**

(1) Including foreign-currency linked.
* Amount less than NIS 0.5 million.

Note 20 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

In NIS millions

	December 31, 2014					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	3	-	12	-	-	15
Debtors in respect of credit-card activity, net	1,883	9	54	5	-	1,951
Computers and equipment	-	-	-	-	2	2
Other assets	443	-	-	-	6	449
Total assets	**2,329**	**9**	**66**	**5**	**8**	**2,417**
Liabilities						
Credit from banking corporations	-*	-	-	2	-	2
Creditors in respect of credit-card activity	2,040	9	57	-*	2	2,108
Other liabilities	14	-	1	-	-	15
Total liabilities	**2,054**	**9**	**58**	**2**	**2**	**2,125**
Difference	275	(*-)	8	3	6	292

(1) Including foreign-currency linked.
* Amount less than NIS 0.5 million.

Note 21 – Assets and Liabilities by Currency and by Maturity

Reported amounts

In NIS millions

	December 31, 2015					
	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
Israeli currency (including linked to foreign currency)						
Assets	1,856	445	415	53	10	-*
Liabilities	1,389	489	430	72	32	20
Difference	467	(44)	(15)	(19)	(22)	(20)
Foreign currency (3)						
Assets	79	(7)	-	-	-	-
Liabilities	59	2	1	-	-	-
Difference	20	(9)	(1)	-	-	-
Of which: Difference in USD	18	(9)	(1)	-	-	-
Total						
Assets**	1,935	438	415	53	10	-*
Liabilities	1,448	491	431	72	32	20
Difference	487	(53)	(16)	(19)	(22)	(20)
** Of which: Debtors in respect of credit-card activity	1,389	437	414	53	10	-

* Amount less than NIS 0.5 million.

(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 cash flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 20, "Assets and Liabilities by Linkage Base."

(3) Excluding Israeli currency linked to foreign currency.

(4) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

				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	Contractual rate of return[5]
-	-	-	-	2,779	14	2,793	-
-	-	-	-	2,432	14	2,470	-
-	-	-	-	347	(-*)	323	
-	-	-	-	72	-	72	-
-	1	-	-	63	-	63	-
-	(1)	-	-	9	-	9	
-	(1)	-	-	7	-	7	
-	-	-	-	2,851	14	2,865	-
-	1	-	-	2,495	14	2,533	-
-	(1)	-	-	356	(-*)	332	
-	-	-	-	2,303	(2)	2,301	

Note 21 – Assets and Liabilities by Currency and by Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2014					
	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
Israeli currency (including linked to foreign currency)						
Assets	1,527	384	359	53	10	-*
Liabilities	1,133	412	377	70	29	18
Difference	394	(28)	(18)	(17)	(19)	(18)
Foreign currency (3)						
Assets	77	(8)	-	-	-	-
Liabilities	53	2	1	-	-	-
Difference	24	(10)	(1)	-	-	-
Of which: Difference in USD	21	(10)	(1)	-	-	-
Total						
Assets**	1,604	376	359	53	10	-*
Liabilities	1,186	414	378	70	29	18
Difference	418	(38)	(19)	(17)	(19)	(18)
** Of which: Debtors in respect of credit-card activity	1,156	375	358	53	10	-*

* Amount less than NIS 0.5 million.

(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 cash flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 20, "Assets and Liabilities by Linkage Base."

(3) Excluding Israeli currency linked to foreign currency.

(4) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

					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	Total	Contractual rate of return[5]
-	-	-	-	2,333	16	2,348	-
-	-	-	-	2,039	5	2,067	-
-	-	-	-	294	11	281	
-	-	-	-	69	-	69	-
-	2		-	58	-	58	-
-	(2)		-	11	-	11	
-	(2)	-	-	8	-	8	
-	-	-	-	2,402	16	2,417	-
-	2	-	-	2,097	5	2,125	-
-	(2)	-	-	305	11	292	
-	-	-	-	1,952	-*	1,951	

Note 22 – Balances and Fair-Value Estimates of Financial Instruments

A. General

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 most of the Company's financial instruments, because there is no active market in which they are traded. 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

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of allowances for credit losses in respect of the debts.

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 22 – Balances and Fair-Value Estimates of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2015				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	15	15	-	-	15
Debtors in respect of credit-card activity, net	2,301	-	-	2,296	2,296
Other financial assets	533	-	-	533	533
Total financial assets	**2,849**	**15**	**-**	**2,829**	**2,844**
Financial liabilities:					
Credit from banking corporations	4	4	-	-	4
Creditors in respect of credit-card activity	2,505	-	-	2,497	2,497
Other financial liabilities	13	-	-	13	13
Total financial liabilities	**2,522**	**4**	**-**	**2,510**	**2,514**

* Of which: assets and liabilities in the amount of NIS 15 million and NIS 4 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

Note 22 – Balances and Fair-Value Estimates of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments (cont.)

	December 31, 2014				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	15	15	-	-	15
Debtors in respect of credit-card activity, net	1,951	-	-	1,946	1,946
Other financial assets	435	-	-	435	435
Total financial assets	***2,401**	**15**	**-**	**2,381**	**2,396**
Financial liabilities:					
Credit from banking corporations	2	2	-	-	2
Creditors in respect of credit-card activity	2,106	-	-	2,099	2,099
Other financial liabilities	10	-	-	10	10
Total financial liabilities	***2,118**	**2**	**-**	**2,109**	**2,111**

* Of which: assets and liabilities in the amount of NIS 15 million and NIS 2 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

Note 23 – Interested Parties and Related Parties of the Company

Reported amounts

In NIS millions

A. Balances

	December 31, 2015							
	Interested parties						Other related parties(3)	
	Controlling shareholders		Key executives(2)		Others			
	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year
Assets								
Cash	15	29	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	-	-	-	-
Other assets	-	-	-	-	531	531	-	-
Liabilities								
Credit from banking corporations	4	5	-	-	-	-	-	-
Creditors in respect of credit cards activity	19	26	-	-	209	209	361	361
Other liabilities	-	-	-*	-*	-	1	-	-
Shares (included in equity)	-*	-*	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	4,335	4,335	3	4	-	-	-	-
Guarantees given by banks	981	995	-	-	-	-	-	-

* Amount less than NIS 0.5 million.

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

(2) The Company began applying Section 80 of the Public Reporting Directives from January 1, 2015.

(3) Based on balances at the end of each month.

Note 23 – Interested Parties and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2014					
	Interested parties				Related parties	
	Controlling shareholders		Key executives(2)		Others(3)	
	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)
Assets						
Cash	15	30	-	-	-	-
Debtors in respect of credit-card activity, net[1]	-	-	1	1	-	-
Other assets	-	-	-	-	434	518
Liabilities						
Credit from banking corporations	2	7	-	-	-	-
Creditors in respect of credit-card activity	11	20	-	-	456	456
Subordinated notes	-	57	-	-	-	-
Other liabilities	-	-	*-	*-	1	1
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	3,936	3,936	5	5	-	-
Guarantees given by banks	779	798	-	-	-	-
Discounting balance with related party	-	-	-	-	-	2

* Amount less than NIS 0.5 million.

(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.

(2) Including their close family members, as defined in IAS 24.

(3) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

(4) Based on balances at the end of each month.

Note 23 – Interested Parties and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2015			
	Interested parties			
	Controlling shareholders	Key executives(1)	Others(2)	Other related parties (2)
Income from credit-card transactions	1	-	20	30
Net interest income	-*	-	-	-
Operating expenses	(1)	-	-	-
Selling and marketing expenses	-	-	-	(1)
General and administrative expenses	-	(1)	(23)	-
Payments to banks	(42)	-	-	-
Total	**(42)**	**(1)**	**(3)**	**29**

	For the year ended December 31, 2014		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
Income from credit-card transactions	1	-	42
Net interest income	1	-	-*
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(20)
Payments to banks	(47)	-	-
Total	**(46)**	**(1)**	**22**

	For the year ended December 31, 2013		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
Income from credit-card transactions	1	-	40
Net interest income	2	-	1
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(19)
Payments to banks	(48)	-	-
Total	**(46)**	**(1)**	**22**

* Amount less than NIS 0.5 million.
(1) Including their close family members, as defined in IAS 24.
(2) The Company began applying Section 80 of the Public Reporting Directives from January 1, 2015.

Note 23 – Interested Parties and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31					
	2015		2014		2013	
	Key executives		Key executives		Key executives	
	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	1	6	1	6	1	4

In addition, in 2015, the Company had salary and related expenses in the amount of approximately NIS 2 million (in 2014 and 2013, approximately NIS 3 million) for 6 employees on loan from Bank Hapoalim.

D. Additional Information

- See Note 16 above – Employee Benefits.
- See Note 18 above – Contingent Liabilities and Special Commitments.

Note 24 – Events after the Financial Reporting Date

1. On January 31, 2016, the Board of Directors of the Company decided to appoint Dr. Ron Weksler to the position of Chief Executive Officer of the Company.

   On February 2, 2016, the Supervisor of Banks' consent was received to the appointment.

2. Regarding the reduction of the rate of Companies Tax beginning in 2016 and thereafter, see Note 8.(5). above.

Note 25 – Information Based on Historical Nominal Data for Tax Purposes

	December 31	
	2015	2014
	Amounts in NIS millions	
Total assets	**2,865**	**2,417**
Total liabilities	**2,533**	**2,125**
Equity	**332**	**292**
Nominal net profit	**40**	**45**

List of Tables

The Board of Directors and the Management

During 2015, the Board of Directors of the Company continued to outline the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

The Board of Directors addressed the approval of the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee; the organizational structure of the Company; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by Management and the congruence of these operations with the policies of the Company).

The Board of Directors and the committees held detailed discussions of the various aspects of the Company's activity.

In 2015, 15 meetings of the plenum of the Board of Directors and 11 meetings of the committees of the Board of Directors were held.

Directors with financial and accounting expertise

Pursuant to the regulations of the Banking Supervision Department in the Public Reporting Directives, the Company is obliged to give details of the minimum number of directors with "financial and accounting expertise", which has been determined by it which is appropriate financial the Board of Directors and in the Audit Committee. The Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors and the Audit Committee will be two directors.

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is six directors. The number of directors who have financial and accounting expertise, according to their education, skills and experience, in the Audit Committee is two directors. (As of the balance sheet date, December 31, 2015, there were six directors and two directors, respectively.)

Members of the Board	
Dan Alexander Koller	Has served as Chairperson of the Board of Directors of the Company since August 10 2014. In addition, has served as Assistant to the CEO, member of Management in Bank Hapoalim since December 1, 2008 and Head of Financial Markets Division. From April 2003, to December 2007, served as Manager of the Assets and Liabilities Section in Bank Hapoalim. From January 2008, to June 2012, served as Assistant to the CEO, Head of the Risk Management Division in Bank Hapoalim. From March 2012 to November 2013, served as Assistant to the CEO, Head of the International Division in Bank Hapoalim. Also serves as chairperson of the board of directors in the following companies: Europay, Isracard, Poalim Capital Markets and Investments – Holdings Ltd., Poalim Capital Markets – Investment House Ltd., Poalim Capital Markets Ltd., Registration Co Of Bank Hapoalim Ltd., Poalim Financial Holdings Ltd., Poalim Issuances Ltd., Tarshish – Poalim Holdings and Investments Ltd., Poalim Assets Ltd. (Shares) Ltd., Opaz Ltd., Continental Poalim Ltd., Poalim Israeli-American Ltd. and Pekaot Poalim Ltd., Bank Hapoalim (Switzerland) Ltd., and director on the board of directors in the following companies: Hapoalim International N.V., Tel Aviv Stock Exchange Ltd. In addition, serves as member of the Trustees of Hadassah International. Served as director in the following companies: Pam Holding Ltd., Poalim Asset Management (UK) Ltd., Poalim Assets (Shares) Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Hapoalim USA Holding Company Inc., Agarot Issuing Company of Bank Hapoalim Ltd., Bitzur Ltd., Israeli American Hapoalim Ltd., Temura Financial Company Ltd., Teuda Financial Company Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Agam Financial Company Ltd., Opaz Ltd., Atad Investment Company Ltd., Zohar HaShemesh Investment Ltd., Einat (Nechasim) Ltd., Poalim Betvuna Ltd., Poalim Venture Services Israel Ltd., Continental Investment Company Ltd., Sapanut Investments Ltd., Sapanut Poalim Management Ltd., Kadema Poalim Financial Company Ltd., Banad Investment Company Ltd., Tuval Investment Company Ltd., Sapanut Financial Company Ltd., Sapanut Securities Ltd. and Bank Otsar Hahayal Ltd., but does not serve in them today. Served as Deputy chairperson in Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, but does not serve in it today. Also served as CEO of Matar Issuance Company Ltd., but does not serve in it today. B.A. and M.A. (with honors) in Economics and Business Administration from the Hebrew University in Jerusalem Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. D. Koller, he is not a family member of another interested party of the corporation.

Avi Idelson	Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies. Has served as director in the Company since January 31, 2010. External director in the Company's Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Chairperson of the Audit Committee and member of the Credit Committee of the Board of Directors of the Company. External director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks on the board of directors of the following companies: Isracard, Europay, and as director in the following companies: Mehadrin Ltd., Avi Idelson Management and Consulting Ltd. Chairperson of the Audit Committee and Remuneration Committee of the Board of Directors of Isracard; and member of the following committees of the Board of Directors of Isracard: Computers and Credit Risks Management; Chairperson of the Audit Committee of the Board of Directors of Europay. Prior thereto, member of the Board of Directors of Mehadrin Ltd. and member of the balance sheet, audit and remuneration committees of the board of directors of Mehadrin Ltd. Served as head of human resources and special consultant at the BSG Investments Group; member of the governing board of the Bank of Israel and head of human resources and administration; and as consultant to companies in the area of human resources for mergers and acquisitions and global systems. as VP of human resources at Amdocs, and served in a series of positions at Bank Hapoalim B.M.: Head of the Planning Research, and Development Department; head of the Human Resources Management Department; and various positions in the areas of training, operations, and human resources. B.A. in Sociology and Education Administration, Tel Aviv University; M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development. Courses in banking and management at Bank Hapoalim. Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University. To the best of the knowledge of the Company and of Mr. A. Idelson, he is not a family member of another interested party in the corporation.

Ofer Levy	Member of the Board of Management of Bank Hapoalim B.M. since May 1, 2006. VP and Chief Accountant at Bank Hapoalim B.M. Member of the Board of Directors of the Company since September 13, 1995; 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: AMI Trustees Ltd., Yefet Nominees Ltd. B.A. in Accounting and Economics, Tel Aviv University. Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. O. Levy, he is not a family member of another interested party in the corporation.
Ronit Meiri Harel	Director on the Board of Directors of the Company since February 23, 2015. Manager of the Trading and Brokerage Rooms – Financial Markets Division in Bank Hapoalim Ltd. Serves as director on the Board of Directors of Isracard and on its risk management committee, and as director on the Board of Directors of Europay and the Board of Directors in Registration Co of Bank Hapoalim Ltd., and alternate director on the Board of Directors of the Tel Aviv Stock Exchange Ltd. Served as Director on the Board of Directors of the Maóf Clearinghouse Ltd. from September 30, 2009, but no longer serves on it today. M.B.A., 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. R. Meiri Harel, she is not a family member of another interested party in the corporation.

Nisana Edvi	Member of the Board of Directors of the Company of Poalim Express since October 31, 2011. Also a member of the Credit Committee and Audit Committee of the Board of Directors of the Company. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. Also, serves as external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the boards of directors of the following companies: Isracard and Europay. Member of the Audit Committee of the Board of Directors of Isracard and Europay; member of the Credit Committee Remuneration Committee of the Board of Directors of Isracard. M.B.A., 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. N. Edvi, she is not a family member of another interested party in the corporation.
Itzhak Amram	Member of the Board of Directors of the Company since December 16, 2013. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Also serves as an external director on the Boards of Directors of Isracard and Europay under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, and as a member of the Audit Committee and Risk Management Committee of the Board of Directors of Isracard and member of the Audit Committee of the Board of Directors of Europay. LL.B.; member of the Israel Bar Association. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party in the corporation.

Zion Ezer	Serves as director on the Board of Directors of the Company since April 16, 2015. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Also serves as external director on the board of directors of Europay under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. B.A. in Economics. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. Z. Ezer, he is not a family member of another interested party of the corporation.
Ronen Stein	Serves as director on the Board of Directors of the Company since February 143, 2016 and will be appointed Chairperson of the Board of Directors following a cooling-off period of three months from the end of his term of office as CEO of the Company. For further details, see the chapter "Senior Members of Management"

Senior Members of Management

Ron Weksler	Serves as CEO of the Company since February 2, 2016. CEO of the following credit card companies: Isracard and Europay. Serves as chairperson of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1984 and Isracard Mimun. Serves as director in Global Factoring. Served as a member of management in Bank Hapoalim, Assistant to the CEO, Head of the Strategic Planning Department from November 2013 to January 2016. Also served as VP Commerce and Sales in the Company, in Isracard and Europay from October 1, 2011 till October 31, 2013. From 2002 until October 2011, fulfilled various roles in Bank Hapoalim. Previously served as director in the following companies: the Company, Isracard and Europay. Ph.D.in Public Administration, Bar-Ilan University MBA , Bar-Ilan University Degree in Law, Tel Aviv University B.A. Accounting – Tel Aviv University To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party in the corporation.
Ronen Stein	CEO of the Company from February 1, 2015 to February 1, 2016. Served as CEO of the following credit card companies: Isracard and Europay. Subsequent to the balance sheet date, on February 14, 2016, was appointed to serve as a director in the Company and in the said companies. Served as chairperson of the boards of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Served as director on the board of directors of Global Factoring Ltd., but no longer serves on it. In the past five years or during part of that period, served as Manager of Retail Banking Section in Bank Hapoalim, and prior thereto, fulfilled a number of management positions in Bank Hapoalim. Serves as Assistant to the CEO, member of management and manager of the Retail Division in Bank Hapoalim and as director on the board of directors of Isracard, and Europay from February 14, 2016. Ll.B. Interdisciplinary College, Herzlia. B.A. Economics – Hebrew University in Jerusalem. Holder of investment consulting license – Israel Securities Authority Holder of license to practice law.

	To the best of the knowledge of the Company and of Mr. R. Stein, he is not a family member of another interested party in the corporation.
Oren Cohen Butensky	Member of Management of the Company since June 2011. VP of Customer Service. Member of the Board of Directors of Tzameret Mimunim Ltd. since April 4, 2012. Previously served as Head of the sales company in MIRS Communications, SDM, and as head of Internet support centers at 012. M.A. in Business and Marketing, Derby University B.A. in Economics and Social Sciences, Bar Ilan University B.A. in Psychology, Open University. To the best of the knowledge of the Company and of Mr. A. Cohen Butensky, he is not a family member of another interested party of the corporation.
Amir Kushilevitz-Ilan	Member of the Management of the Company since February 2011. VP Risk Management and Security and Chief Risk Officer. In the last five years or during part of that period, served as head of the Risk Management Department of the Company M.B.A., Ben Gurion University B.Sc., Aeronautics and Space Engineering, Technion. To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party of the corporation.
Vicky Levi	Member of the Management of the Company since January 1, 2014. VP of Commerce. Director on the board of directors of Global Factoring Ltd. Since 1992, has served in various positions at Bank Hapoalim B.M. In her previous position, before the beginning of her term of office in Isracard, served as the Center Regional Manager in Bank Hapoalim B.M. (2006-2013) M.B.A., Ben Gurion University B.A. in Economics, Ben Gurion University. Investment advisor certified by the Israel Securities Authority. Completed a directors' course at the Interdisciplinary Center, Herzliya. To the best of the knowledge of the Company and of Ms. V. Levi, she is not a family member of another interested party in the corporation.

Maora Shalgi	Member of the Management of the Company since May 1, 2011. VP of Human Resources. M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University B.A. in Social Sciences and Liberal Arts, Open University. To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.
Ronen Zaretsky	Member of the Management of the Company from December 18, 2005. VP of Technology. Graduate of the computer units of the IDF, most recently as commander of the IDF Manpower Computing Center, holding the rank of Colonel. M.A. in Public Administration, Bar Ilan University B.A. in Computer Science, Economics, and Criminology, Bar Ilan University. Computer technician and computer engineer degree, Technological Training Center. Graduate of the IDF Command and Staff College. Founder and active participant in Bridge of Light – A shared activity of high-tech industry workers, IDF soldiers, and the blind in Israel. Founder and joint authorized signatory of the Elul Gemach (charity organization), within the non-profit association of the Shaarey Tikvah synagogue and community Torah center. To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party in the corporation.
Ron Cohen	Member of the Management of the Company since February 27, 2007. VP of Credit and Financial Services. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Securitization Ltd. Previously served as Head of Customer Relations in the Corporate Banking Division at Bank Hapoalim B.M. M.A. in Business Administration, Marketing, and Finance, 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 in the corporation.

Ram Gev	Member of the Management of the Company since the end of March 2011. VP of Finance and Administration. Serves as a member of the board of directors of the following companies: Isracard (Nechasim) 1994 and Isracard Mimun. Previously served as Head of Finance at Harel Finance and as deputy manager of the Corporate Department at the Israel Securities Authority. M.B.A. (specialized in finance), Hebrew University of Jerusalem B.A. in Accounting and Economics, Hebrew University of Jerusalem. Certified Public Accountant To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.
Dov Kotler	Served as Chief Executive Officer of the Company from February 1, 2009 until January 31, 2015. Served as CEO of the following credit-card companies: Isracard and Europay until January 31, 2015. Also served Chairperson of the board of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994, and Isracard Mimun. Also served as director of Global Factoring Ltd. Member of the board of directors of the following companies: Amir Marketing and Investments in Agriculture Ltd., and H.E.O.H. Management Services Ltd.; member of the Governing Board of the Round Up Foundation. M.B.A., Finance 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 in the corporation.

Internal Audit

The Company obtains its internal audit services from Bank Hapoalim B.M. (hereinafter: "**the Bank**").

Details of the Internal Auditor – Zeev Hayo has served as Internal Auditor of the Company since July 31, 2014.

Mr. Zeev Hayo has worked in the Bank Hapoalim Group since January 1990, and is employed on a full-time basis and is a member of management, Assistant to the CEO, a certified public accountant, and holds a B.A. degree in Accounting and Economics from Tel Aviv University. He is a certified public accountant with experience in the areas of banking and auditing and meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: 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 his position as Chief Internal Auditor of Bank Hapoalim and of some of the subsidiaries in the Bank Group (including the Isracard Group companies), as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

The appointment and termination of internal audit employees are subject to approval by the Internal Auditor; internal audit employees receive instructions on audit-related matters only from the Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; Internal Audit employees are authorized to sign on behalf of the Company only documents related to audit work, as required under Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function."

Reporting responsibility of the Internal Auditor – The Chief Internal Auditor reports within the organization to the Chairperson of the Board of Directors.

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2015 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company. The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by the Internal Auditor, the plan is submitted for discussion by the Audit Committee; and, in accordance with the committee's recommendations, the plan is discussed and approved by the Board of Directors.

The Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. The work plan includes, inter alia, 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, Company management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

Auditing resources – Some 44 days of audit were invested directly in the Company during 2015. In addition, acts received by the Company from outsourcing from its fellow-subsidiary, Isracard Ltd., are audited as part of the internal audit of this company. T he volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

Remuneration – Mr. Zeev Hayo was not remunerated by the Company. Auditing is supplied through outsourcing, and the Company pays the Bank for the internal auditing services on the basis of the number of work days of the auditors. In the opinion of the Board of Directors, the said payments are not such that they would affect the professional judgment of the Internal Auditor.

Conducting the audit – Internal Audit at the Company operates under the laws, regulations, directives and guidelines of the Supervisor of Banks (including Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function"), professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the 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 the Company's internal auditing complies with the requirements established in the professional standards and the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Company, as necessary to perform its duties.

Report of the Internal Auditor – Internal audit reports, including periodic reports, are submitted in writing. Audit reports are submitted to the Chairperson of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Company, and are also distributed to the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

Summary of Internal Audit activity – A summary of audit activities for 2014 was submitted to the Company in January 2015. A summary of audit activities for 2015 is expected to be submitted to the Audit Committee during the first quarter of 2016.

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

Disclosure on the Procedure for Approval of the Financial Statements

The Board of Directors of the Company is the organ charged with overarching control in the Company. As part of the procedure for approving 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 review 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 to the members of the Board of Directors.

During the meetings (the meeting of the Audit Committee and the meeting of the Board of Directors), the financial statements are discussed and approved. The Head of Finance and Administration reviews the Company's business results and financial position as well as main items in the financial statements, the plausibility of the data, 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. In addition, the Chief Accountant addresses material issues in financial reporting, material evaluations, and critical estimates implemented in the financial statements.

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 defects 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 Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

Remuneration of Auditors

Table 1 – Auditors' remuneration (1)(2)

	2015	2014
	(In NIS thousands)	
For audit activities[3]:		
Joint auditors	450	461
For services connected to the audit		
Joint auditors	25	14
For tax services[4]:		
Joint auditors	9	15
For other services[5]:		
Joint auditors	15	14
Total	49	43
Total remuneration of auditors	**499**	**504**

(1) Report by the Board of Directors to the Annual General Meeting on the remuneration of auditors for audit activities and for services in addition to the audit, pursuant to sections 165 and 167 of the Companies Law, 1999.

(2) Includes remuneration paid and remuneration accrued.

(3) Audits of annual financial statements and reviews of interim reports, including an audit of the internal control over financial reporting (SOX 404).

(4) Includes tax consulting.

(5) Mainly includes routine processes.

Salaries and Benefits of Officeholders

As part of the Company's participation in joint costs of Isracard and the Company, the Company also bears the relative cost of the salaries of officeholders. This cost is charged to the Company as a general amount, and cannot be attributed specifically to individual officeholders. The payment of wages to the officeholders is performed by Isracard, which operates the activity of the Company, as noted.

Transactions with controlling owners and related parties, see Note 23 to the financial statements above.

Additional details

Controlling owner in the Company

Isracard (hereinafter: "**the Company**") is a corporation which was incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: "**the parent company**" / "**Bank Hapoalim**"). The holder of the control permit in Bank Hapoalim is Ms. Shari Arison. The Company is an ancillary corporation pursuant to the Banking Law (Licensing), 5741-1981.

Intangible Assets

In April 2010, the agreement with the American Express organization to issue and clear American Express credit cards in Israel was renewed for a further seven years. In addition, by virtue of its membership in the American Express organization, the Company has a general user-right to the brands owned by the American Express organization.

In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 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 nine functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains departments, sub-departments, and sections, according to the nature of its activity, which report to the head of the unit.

Personnel system in the Company

Total employee positions in the Company include:

(1) Employees under a collective agreement and/or personal employee agreements signed with Isracard or Europay.

(2) Employees included in the workforce of Bank Hapoalim who are loaned to the Company. In addition to the labor legislation and expansion orders, the terms of employment of most of the abovementioned employees on loan are organized in the constitution of the Histadrut Labor Federation, in various collective agreements and in various agreements regarding salary conditions and other rights.

(3) External personnel.

Table 2 - Data of the number of employee positions of the Company in terms of full-time positions

	2015	2014
Average positions on a monthly basis	163	165
Total positions at year end	164	169

The total number of employees includes employees employed under agreements for participation in expenses among the Group's companies.

In calculating the number of employee position, overtime hours for which overtime hours are paid according to specific reporting (not on a global basis) is taken into account.

In 2015, a reclassification of the intercompany recharge made by a related company, Isracard, with regard to the capitalization of software costs. The number of employee positions at the end of 2014 increased by nine positions as a result of the aforesaid change.

Trends in Human Resources

Human resources strategy emphasizes connecting the employees to the Company's business targets, integrating values of openness, and transparency along with innovation and achievement, while upholding the ethical code.

In 2015, the Company continued to maintain this policy, through:

1. Labor relations – stable and quiet labor relations were maintained, with a continuing dialog with partners to this system, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Group's objectives.
3. Adaptation of changes in human-resources policy aimed at achieving improved efficiency and cost savings.
4. Encouragement of employees’ efforts to develop innovation, excellence, professional expertise, and success.
5. Encouragement of employees' involvement in and connection to the Company's corporate objectives.
6. Cultivation of employees’ sense of belonging to the Company, with an emphasis on values such as mutual trust and respect. Again this year, the Company offered a range of welfare activities for employees and their families throughout the year.
7. Leading organization-wide processes in response to changes and in support of the Group's strategy, including adapting the recruitment and training processes and guiding the change with support for managers; developing a experiential, varied and unique learning environment tailored to the Company's goals.

8. Continuing the assimilation of the ethical code, addressing the regulatory amendments for accessibility and corporate responsibility.

9. Continued investment in preserving service representatives in the customer-service centers.

10. Increasing the value of giving to the community via the encouragement of volunteering activities through organizational units, individual activities, and company-wide activities, incorporating employees and their families.

Cultivating Innovation within the Organization

This year, too, the Company has been taking steps to integrate an organizational culture of innovative thinking by harnessing the Company's managers and employees in the activity. The process this year began with lectures from leading speakers in the areas of innovation. Subsequent to the process, employees raised ideas, some of which were presented to the management of the Company as business plans and approved for further development in the working plans of the business units.

Fostering employee satisfaction and involvement

Again this year, the Isracard Group was ranked the best credit card company to work in, and was in eighteenth place among the best 100 companies to work for in a BDI survey.

The Company routinely has a number of activities and initiatives in collaboration with the various units in order to increase employee involvement in the Company's activities and operating results. This involvement is reflected in, among other things, the higher motivation for sales and in raising innovative ideas for improving processes.

Corporate Responsibility, Ethics and Regulation

The Company has continued to act pursuant to the work program in the area of corporate responsibility, as published on the bi-annual report which was published during the past year.

The Isracard Group is committed to values-driven and deferential business conduct with all of our business partners and stakeholders. The ethical code constitutes the Group's value identity card and reflects the unique values and the code of conduct to which we see ourselves committed. This year, the ethical code continued to be assimilated among the Company's employees, including newly recruited employees.

During the year, we took steps to make the Group's marketing website more accessible, as part of implementing the administrative work carried out last year, which was aimed at adapting the Company to the accessibility regulations in the area of buildings, infrastructure and environment and in the area of service. The work-plan complies with the 2015 accessibility regulations.

Organizational Development and Professional Training

As strategic partners guiding and supporting achievement of the objectives of the organization as a whole, including the business units within it, a targeted training program has been created for each business unit, including targeted plans for employees, based on the needs which have been recognized.

In 2015, we placed emphasis on adapting training to the changing challenges and business environment; improvement of service and sales skills of service representatives; assimilation of new products and services. The Company also worked on training and enhancing the professional knowledge of employees and executives in various roles and providing tools which encourage creativity and openness for innovation, the acquisition of sales skills for various populations in the Company and enhancing professional knowledge.

Occupational Stability

Employee retention in general, particularly those in the call centers, this year, was a focus of joint work by the business units and the human resources units. The duration of employment of service representatives at the various call centers is high, thanks to a deeper strategic partnership with the customer service departments.

Promotion of Diversity

The Company has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups, under-represented in the labor market. In 2015, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and the possibility for everyone to reach professional and personal fulfillment, with the aim of creating a tolerant, civil community of employees.

Social Involvement and Contribution to the Community

Most of the activity in the area of community involvement and contributions is conducted through Isracard.

Restrictions, legislation, standards and material special constraints

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and clearing charge cards, operating a charge-card system, and extending credit, it is subject to laws and directives related to its activity in these areas. These laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of issuance and clearing of charge cards. The Company is also subject to various directives issued by the Supervisor of Banks and applicable to credit-card companies, for example, 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. Additional Proper Conduct of Banking Business Directives also apply to credit-card companies.

In addition, the Company is an "auxiliary corporation" under the Banking Law (Licensing). As a credit-card company and as an "auxiliary corporation", the Company is subject to a further system of rules, orders, and regulations, including: the Banking Law (Licensing); the Bank of Israel Law, 1954; the Banking Ordinance; the Banking Law (Customer Service), 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, 1988 (hereinafter: "**the Restrictive Trade Practices Law**"); the Interest Law, 1957; the Agency Law, 1965; the Control of Prices of Commodities and Services Law, 1957; the Control of Commodities and Services Law, 1996; and the Protection of Privacy Law, 1981 and the subsequent regulations.

Below is a reference to a number of relevant regulatory provisions for the report period:

a. Antitrust issues – see Note 18B.1 to the financial statements above.

b. Regulatory initiatives – See Note 18B.2 to the financial statements above.

c. Legal proceedings and contingencies – See Note 18C to the financial statements above.

Description of the Company's business by operating segments

An operating segment is a component in the Company which is engaged in activities from which it is likely to generate income and incur expenses; the operating results are regularly examined by the management and the Board of Directors for making decisions and assessing its performance; and separate financial information exists in respect thereof. The reporting format for the Company's operating securities is determined by the Public Reporting Directives of the Supervisor of Banks.

Credit card issuance segment

A 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 clearer or merchant, respectively, for card issuance and operational services.

As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Europay, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition. Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company have agreements, including Bank Hapoalim (the parent company), Bank Mizrahi Tefahot Ltd. (hereinafter: "**Mizrahi Tefahot**"), Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank

Poaley Agudat Israel Ltd., Union Bank Ltd. and U-Bank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. During the year, the Company renewed agreements with a number of clubs. With regard to regulatory influences on the segment, see also "Restrictions and Supervision of the Company's Operations," below. As stated above, Isracard manages and operates the credit card issuance and clearing activities on the Company's behalf.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) collaboration with the Banks Under Arrangement, for the distribution and issuance of credit cards and cooperation with other banking corporations, as stated above, for the distribution of credit cards, including the combination of a bank card in the framework of the credit card issued by the Company; (3) brand image, prestige, and uniqueness in its field; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supportive operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency.

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 trademark, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and investments in technological infrastructures, including a supportive operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable cards 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.

Contractual Arrangements with Banking Corporations

The various agreements of the Company with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the card arrangement to the Company. As a rule, each such bank is responsible for accepting all sales slips and debits executed 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.

Competition

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

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not have credit cards or who have 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 "wallet share" of cardholders (who may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of products issued by the Company and/or increasing the volume of use of such products; (3) offers of non-bank credit services through revolving credit cards or through loans for cardholders, as an addition and/or alternative to credit granted by banks and other financial institutions.

For details regarding the credit-card companies operating in Israel, see the section "The Credit-Card Industry in Israel," in the Report of the Board of Directors and Management, above.

In order to cope with competition, the Company (including through Isracard, which administers and operates credit-card issuance activity on behalf of 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) 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; (3) reinforcement of status and image through advertising, benefits, and various offers for cardholders; (4) provision of unique services, including concierge services and international discount and benefit programs; and (5) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the American Express Organization for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (3) brand image and prestige, and uniqueness in its area of activity; (4) professional, skilled, experienced human capital; (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; and (8) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others: some merchants that do not accept its cards; technological improvements that create the possibility of development of alternative means of payment in areas such as payments via 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 Clearing Segment

General

In clearing services, the clearing 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 cleared by the clearer when purchasing goods or services from the merchants will be settled by the clearer. The clearer accumulates debits for transactions executed in the credit cards cleared by the clearer with a particular merchant that has signed a clearing 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 at the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Isracard, Europay, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, advance payments, and discounting.

As noted, Isracard administers and operates credit-card issuance and clearing activity on behalf of the Company.

Critical success factors in the operating segment, and changes therein – The main critical success factors in the Clearing Segment, the Company's opinion, are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to clearing customers – merchants – and the ability to recruit and retain merchants through a targeted sales and marketing system; (6) provision of related services to merchants, including various financial, and operational services; (7) operational efficiency; (8) accumulated experience in the area of clearing of credit cards; 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 clearing services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license, including a license from international organizations to clear the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a communications system to allow the operation of clearing; (4) the need to perform clearing services on a large scale in order to recover the investment in infrastructures, clearing 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 non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Competition

The credit-card clearing field is characterized by a very high level of competition.

For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above.

Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing 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 clearing sector is focused on the development of financial and operational products and services for merchants. 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, advances, flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant, discounting services, etc.

In order to cope with the competition in this area, the Company (including through Isracard, which administers and operates credit-card clearing activity on behalf of the Company) takes the following main actions: (1) a competitive, prudent fee 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 the merchant's unique needs; and (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 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 clearing service provider, and in formulating the overall perception of the Company by merchants.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the American Express Organization for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (3) a targeted marketing, sales, and service system specializing in providing suitable solutions to merchants while maintaining regular contact with them, and containing professional, skilled, experienced human capital; (4) a brand with presence and power; (5) an advanced technological infrastructure allowing response to the needs of the various merchants; and (6) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, technological improvements that create the possibility of development of alternative means of payment such as payment via cellular phones, which may cause a decline in credit-card clearing; and competition against other credit-card brands in Israel.

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

Dan Koller	**Dr. Ron Weksler**
Chairperson of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2016

Appendices to the Annual Report

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses

Reported amounts

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	-	-*	-	-	2	-	-	4	-
Debtors in respect of credit-card activity(3)	19	1	5.26	25	1	4.00	19	2	10.53
Other assets	461	-*	-	472	1	0.21	419	1	0.24
Total interest-bearing assets	**480**	**1**	**0.21**	**497**	**4**	**0.8**	**438**	**7**	**1.60**
Non-interest-bearing debtors in respect of credit cards	2,068			1,856			1,778		
Other non-interest-bearing assets(4)	29			26			30		
Total assets	**2,577**			**2,379**			**2,246**		

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Includes non-monetary assets and net of the allowance for credit losses.

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

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	3	(-*)	-	4	(-*)	-	4	-	-
Subordinated notes	-	-	-	56	(1)	(1.79)	57	(2)	(3.51)
Other liabilities	-*	(-*)	-	1	-	-	*-	(*-)	-
Total interest-bearing liabilities	**3**	**(-*)**	**-**	**61**	**(1)**	**(1.64)**	**61**	**(2)**	**(3.28)**
Non-interest-bearing creditors in respect of credit cards	2,247			2,032			1,945		
Other non-interest-bearing liabilities(3)	17			17			17		
Total liabilities	**2,267**			**2,110**			**2,023**		
Total capital means	**310**			**269**			**223**		
Total liabilities and capital means	**2,577**			**2,379**			**2,246**		
Interest spread			0.21			(0.84)			(1.68)
Net return on interest-bearing assets in Israel	480	1	0.21	497	3	0.60	438	5	1.14

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Including non-monetary liabilities, and the allowance for credit losses in respect of off-balance-sheet financial instruments.

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

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Average Balances and Interest Rates – Additional Information Regarding Interest-Bearing Assets and Liabilities Attributed to Activity in Israel

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	480	1	0.21	497	4	0.80	438	7	1.60
Total interest-bearing liabilities	1	-*	-	58	(1)	(1.72)	57	(2)	(3.51)
Interest spread			0.21			(0.92)			(1.91)
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	-	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	2	-*	-	3	(-*)	-	4	(*-)	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	480	1	0.21	497	4	0.80	438	7	1.60
Total interest-bearing liabilities	3	-*	-	61	(1)	(1.64)	61	(2)	(3.28)
Interest spread			0.21			(0.84)			(1.68)

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

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

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Analysis of Changes in Interest Income and Interest Expenses

Year ended December 31, 2015 versus year ended December 31, 2014

	Increase (decrease) due to change (1)		
	Quantity	Price	Net change
	In NIS millions		
Interest-bearing assets (2)			
Cash	-	(2)	(2)
Debtors in respect of credit-card activity	(-*)	-*	(-*)
Other interest-bearing assets	-*	(1)	(1)
Total interest income	**-***	**(3)**	**(3)**
Interest-bearing liabilities (2)			
Credit from banking corporations	-	-	-
Subordinated notes	(1)	-	(1)
Other interest-bearing liabilities	-	-	-
Total interest expenses	**(1)**	**-**	**(1)**

Year ended December 31, 2014 versus year ended December 31, 2013

	Increase (decrease) due to change (1)		
	Quantity	Price	Net change
	In NIS millions		
Interest-bearing assets (2)			
Cash	-	(2)	(2)
Debtors in respect of credit-card activity	-*	(1)	(1)
Other interest-bearing assets	-*	(-*)	-
Total interest income	**-***	**(3)**	**(3)**
Interest-bearing liabilities (2)			
Credit from banking corporations	-	-	-
Subordinated notes	(-*)	(1)	(1)
Other interest-bearing liabilities	-	-	-
Total interest expenses	**(-*)**	**(1)**	**(1)**

* Amount less than NIS 0.5 million.

(1) The change in quantity was calculated by multiplying the difference between the average balances in each period by the rate of income/expense for the period.
The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

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

Table 4 - Quarterly Statements of Profit and Loss – Multi-Quarter Data

Reported amounts

NIS millions

	2015			
	Q4	Q3	Q2	Q1
Income				
From credit-card transactions	97	98	89	84
Net interest income	-*	-*	1	-*
Other income (expenses)	(1)	(1)	-*	-*
Total income	**96**	**97**	**90**	**84**
Expenses				
In respect of credit losses	3	1	1	1
Operating expenses	29	30	33	28
Sales and marketing expenses	21	21	16	18
General and administrative expenses	8	7	8	7
Payments to banks	21	22	19	18
Total expenses	**82**	**81**	**77**	**72**
Profit before taxes	14	16	13	12
Provision for taxes on profit	4	4	4	3
Net profit	**10**	**12**	**9**	**9**
Basic and diluted net profit per common share (in NIS)	**74**	**80**	**67**	**64**

* Amount less than NIS 0.5 million.

Table 4 - Quarterly Statements of Profit and Loss – Multi-Quarter Data (cont.)

Reported amounts

NIS millions

	2014			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	85	83	84	80
Net interest income	-*	1	1	1
Other income	1	1	1	-*
Total income	**86**	**85**	**86**	**81**
Expenses				
Provision for credit losses	1	(-*)	-*	-*
Operating expenses	22	24	25	26
Sales and marketing expenses	24	16	13	16
General and administrative expenses	8	6	7	7
Payments to banks	19	21	23	19
Total expenses	**74**	**67**	**68**	**68**
Profit before taxes	12	18	18	13
Provision for taxes on profit	3	5	5	3
Net profit	**9**	**13**	**13**	**10**
Basic and diluted net profit per common share (in NIS)	**68**	**93**	**94**	**69**

* Amount less than NIS 0.5 million.

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

Reported amounts

NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash	15	24	24	29
Debtors in respect of credit-card activity	2,314	2,147	2,093	2,068
Allowance for credit losses	(13)	(12)	(12)	(12)
Debtors in respect of credit-card activity, net	2,301	2,135	2,081	2,056
Computers and equipment	-*	-*	-*	2
Other assets	549	466	477	454
Total assets	**2,865**	**2,625**	**2,582**	**2,541**
Liabilities				
Credit from banking corporations	4	-*	1	4
Creditors in respect of credit-card activity	2,510	2,287	2,253	2,216
Other liabilities	19	16	18	20
Total liabilities	2,533	2,303	2,272	2,240
Capital	332	322	310	301
Total liabilities and capital	**2,865**	**2,625**	**2,582**	**2,541**

* Amount less than NIS 0.5 million.

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data (cont.)

Reported amounts

NIS millions

	2014			
	Q4	Q3	Q2	Q1
Assets				
Cash	15	12	29	26
Debtors in respect of credit-card activity	1,962	1,931	1,865	1,842
Allowance for credit losses	(11)	(10)	(11)	(11)
Debtors in respect of credit-card activity, net	1,951	1,921	1,854	1,831
Computers and equipment	2	2	2	2
Other assets	449	471	489	460
Total assets	**2,417**	**2,406**	**2,374**	**2,319**
Liabilities				
Credit from banking corporations	2	4	6	2
Creditors in respect of credit-card activity	2,108	2,044	2,025	1,986
Subordinated notes	-	57	57	56
Other liabilities	15	18	16	18
Total liabilities	2,125	2,123	2,104	2,062
Capital	292	283	270	257
Total liabilities and capital	**2,417**	**2,406**	**2,374**	**2,319**

* Amount less than NIS 0.5 million.