Poalim Express Ltd.

Annual Report

For the year ended December 31, 2014

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Poalim Express Ltd.

Board of Directors' Report

For the Year Ended December 31, 2014

Board of Directors' Report on the Financial Statements as at December 31, 2014

At the meeting of the Board of Directors held on February 23, 2015, it was resolved to approve and publish the audited financial statements of Poalim Express Ltd. ("**the Company**" or "**Poalim Express**") for 2014.

Mr. Dan Koller serves as director and Chairman of the Board of Directors of the Company, replacing Mr. Shimon Gal who retired from his position as director and Chairman of the Board of Directors of the Company in July 2014. Mr. Dov Kotler, Chief Executive Officer of the companies in the Isracard Group (Isracard Ltd., Poalim Express Ltd., Europay (Eurocard) Ltd.), ceased to serve in his position on January 31, 2015, after a term of office lasting six years, on completing his contract of employment. Mr. Ronen Stein was appointed Chief Executive Officer of the Company and has served in this position since February 1, 2015.

Description of the General Development of the Company's Business

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 a fee and other payments to Isracard, 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**").

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

Developments in the Global Economy

The global economy was characterized in 2014 by inconsistent trends. Growth in the United States was strong, while in Europe, growth was sluggish and inflation was almost zero, even so far as fears of deflation. In emerging markets, too, the picture was not uniform. In Asia, the trends were generally positive, India and China being particularly notable. On the other hand, Russia endured an economic and financial crisis, and, in Brazil, GDP was seen to shrink. Looking ahead, the risk to a recovery of the global economy remains high, mainly due to fears of a deterioration in the economies of the Euro Area and a further weakening of the situation in Russia, which is also likely to impact other economies. According to estimates of the International Monetary Fund, for the year overall, the global economy recorded growth of 3.3% annually, similar to the rate attained in 2013. The developed economies grew by 1.8%, while in the developing markets, growth slowed to 4.4%. The inflationary environment in the developed countries remained very low, the sharp fall in oil prices in the second half of 2014 – a drop of 50% since June 2014 - contributing to this. Against a backdrop of moderate activity and the low inflationary environment, the monetary policy in the developed countries remained very expansive, In the Euro Area, interest rates fell to an historically low level of 0.05%, and the European Central Bank started purchasing bonds totaling 60 million euros a month. In Japan, a program of quantitative easing was continued. In the United States, interest rates remained close to zero at a level of 0.25%, but bond purchases came to an end in October 2014. Relatively strong growth in the United States and expectations that the United States will be the first to raise interest rates among the developed states caused the dollar to strengthen against most other world currencies in the second half of 2014.

In the United States, growth continued at a similar rate to 2013. In 2014, growth totaled 2.4%. In the second half of 2014, the rate of growth was even higher. Activity in the real estate sector was stable in 2014, while private consumption and industrial activity continued to expand, and employment data generally indicated continuing improvement – unemployment rates fell in December 2014 to 5.6% and 2.95 million new jobs were added to the U.S. economy in 2014. After two years of recession, positive, but low, growth of 0.8% was recorded. Germany continued to lead and Spain recorded an impressive recovery, growing by 1.4%. The labor market remained vulnerable – the average unemployment rate in the Euro Area was still high at a rate of 11.5%, and the annual inflation rate in the Euro Area was low, adding to a fear of deflation. The risk premiums for Italy, Spain, Irland and Portugal fell significantly in 2014, and in Greece, in January 2015, a new government was established, following elections. This government is opposed to the harsh austerity measures in the country, and is conducting negotiations with the European Union and the European Central Bank on a future policy path and on the volume of debt and its restructuring. This conflict carries the risk of Greece's leaving the Euro Area.

On January 15, 2015, the Central Bank in Switzerland announced the cancelation of the exchange rate floor for the euro which stood at 1.2 for the past three years. In addition, the bank reduced the three-month LIBOR interest target area by a half a percent to a range of 0.25% to 1.25%. In response to these measures, by the end of January 2015, the Swiss franc strengthened sharply against the euro by 18%, and against the dollar, by 13%.

The Israeli Economy

Economic Activity in Israel

The Israeli economy grew by 2.9% in 2013, according to estimates by the Central Bureau of Statistics, compared with 3.2% in 2013. The slowdown in growth was influenced, among other things, by Operation Protective Edge which occurred in the third quarter of 2014, when growth fell to almost zero. In the fourth quarter of the year, the economy grew at a rapid rate of 7.2% per annum, and therefore, one can say that the effect of the operation on activity was limited. Growth in the past year was substantially based on an expansion in private consumption and public consumption, while exports expanded more slowly and non-bank investments in the economy fell. The increase in private consumption was particularly prominent in durable products, and this was mainly influenced by the low interest rates. The increase in public consumption is primarily attributable to high security expenditure. The slackness in the exports of goods and services was influenced by an appreciation in the shekel in the first half of 2014, and by the damage caused by Operation Protective Edge to incoming tourism.

The labor market continued its strong showing and the unemployment rate fell to an average level of 5.9%, compared with 6.2% in 2013. In addition, the rate of labor force participation continued to increase.

The residential construction industry was one of the topics at the top of the economic and political agenda. The government tried to advance a program of reducing the rate of VAT to zero for an eligible population and "target price" projects, in which the land would be sold at a discount. These programs result in a sharp fall of 30% in purchases of new apartments. In the end, the VAT reduction for eligible population was not approved and the Knesset was dissolved. The purchase of apartments returned to 2013 levels from September 2014. According to the CBS, house prices rose by 5.8% in the last 12 months surveyed.

Fiscal and Monetary Policy

The budget deficit in 2014 amounted to NIS 29.9 billion, which is 2.8% of GDP. Tax revenues increased by 5.9%, and expenditure by 3.5%. The government budget for 2015 was not approved in the Knesset due to its dissolution. Until the formation of a new government (The elections are due to take place on March 17, 2015.), a 2015 budget is being allocated according to that of last year, and the government cannot exceed the proportional part of the accumulated budget for the period.

The Bank of Israel interest rate was lowered three times during 2014 down to a level of 0.25% in September 2014. Interest rate reductions came against a backdrop of relatively moderate growth of the economy, inflation which was lower than the lower limit of the target and an attempt to weaken the exchange rate of the shekel.

Inflation and Exchange Rates

The known consumer price index in 2014 fell by 0.1% in 2014. The index excluding housing fell by 1.0%. The falls in prices derived from external factors, such as the commodity and oil price, and domestic factors, such as an increase in competition in the communication and retail sectors. As of January 2015, expectations for inflation are continuing to be significantly lower than the inflation target, standing at an average of 0.5% for the next two years.

The shekel depreciated against the dollar by 12.0% in 2014, and by 3.1% against the effective currency basket. The weakness of the shekel began in August 2014 and this generally reflected the strengthening of the rate of the dollar against the majority of the currencies around the world. During 2014, the Bank of Israel purchased USD 7 billion in conversion transactions, of which USD 3.5 billion was in the framework of a program of purchases intended to offset the effect of gas production on the exchange rate. At the same time as a devaluation in the rate of the shekel, there was also a significant increase in the volatility of the exchange rate, both historical and that inherent in options.

The Credit-Card Industry in Israel

As at the reporting date, the following companies operate in the area of credit-card issuance and clearing in Israel: (1) the Company, which issues and clears American Express credit cards, (2) issues and clears Isracard credit cards, jointly with Europay issues and clears MasterCard credit cards, and issues and clears Visa credit cards; (3) Leumi Card Ltd. (hereinafter: "**Leumi Card**"), which, to the best of the Company's knowledge, issues Visa and MasterCard credit cards, and clears Visa, MasterCard, and Isracard credit cards; (4) Cartisei Ashrai Leisrael Ltd. (hereinafter: "**CAL**"), which, to the best of the Company's knowledge, issues Visa and MasterCard credit cards, and clears Visa, MasterCard, and Isracard credit cards; and (5) Diners Club Israel Ltd. (hereinafter: "**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and clears Diners credit cards.

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 2000 (the "**Anti-Money Laundering Law**") and the order issued under its power by the Bank of Israel. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, which regularizes the activity of credit-card companies, as well as guidelines derived from Proper Conduct of Banking Business Directives No. 311, which establish risk-management standards aimed at reinforcing the financial robustness and stability of the banking system.

Operating Data

Number of Credit Cards (in thousands)

Number of valid credit cards as of 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**

Number of valid credit cards as of December 31, 2013

	Active cards	Inactive cards	Total
Bank cards	276	66	342
Non-bank cards –			
Credit risk on the Company	105	66	171
Total	**381**	**132**	**513**

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

	For the year ended December 31	
	2014	**2013**
Bank cards	12,583	12,233
Non-bank cards –		
Credit risk on the Company	3,425	2,991
Total	**16,008**	**15,224**

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.

Profit and Profitability

The Company's net profit totaled NIS 45 million in 2014, compared with NIS 43 million in 2013, an increase of 4.7%.

Net return on average equity reached 16.7% in 2014, compared with 19.3% in 2013.

Developments in Income and Expenses

Revenues totaled NIS 338 million in 2014, compared with NIS 323 million in 2013, an increase of 4.6%. For an explanation of the increase, see the item of income from credit-card transactions, below.

Income from credit-card transactions totaled NIS 332 million in 2014, compared with NIS 317 million in 2013, an increase of 4.7%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 275 million, compared with NIS 268 million in 2013, an increase of 2.6%, resulting from growth in the volume of activity in the Company's credit cards.

- Income in respect of credit-card holders totaled NIS 57 million, compared with NIS 49 million in 2013, an increase of 16.3%.

Net interest income totaled NIS 3 million in 2014, compared with NIS 5 million in 2013, a decrease of 40%, which mainly resulted from a decrease in the interest rate in Israel.

Other income totaled NIS 3 million in 2014, compared with NIS 1 million in 2013, an increase of 200%

Expenses before payments to banks totaled NIS 195 million in 2014, compared with NIS 184 million in 2013, an increase of 6%. (For an explanation of the increase, see the items of operating expenses and marketing expenses, below.)

Expenses including payments to banks totaled NIS 277 million in 2014, compared with NIS 266 million in 2013, an increase of 4.1%. (For an explanation of the increase, see the items of operating expenses, marketing expenses, and payments to banks, below.)

The provision for credit losses totaled NIS 1 million in 2014, similar to the corresponding period last year.

Operating expenses totaled NIS 97 million in 2014, compared with NIS 94 million in 2013, an increase of 3.2%. The increase mainly resulted from expenses in respect of royalties to the international organization.

Sales and marketing expenses totaled NIS 69 million in 2014, compared with NIS 62 million in 2013, an increase of 11.3%. The increase mainly resulted from expenses for advertising and customer recruitment.

General and administrative expenses totaled NIS 28 million in 2014, compared with NIS 27 million in 2013, an increase of 3.7%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 82 million in 2014, similar to the corresponding period last year.

The ratio of expenses to income before payments to banks reached 58% in 2014, compared with 57% in 2013.

Profit before tax totaled NIS 61 million in 2014, compared with NIS 51 million in 2013, an increase of 7%.

The return of profit before taxes on average equity reached 22.7% in 2014, compared with 25.6% in 2013.

The provision for taxes on profit totaled NIS 16 million in 2014, compared with NIS 14 million in 2013. The effective tax rate as a percentage of total operating profit before taxes reached 26.2% in 2014, compared with 24.6% in 2013. The change in the tax rate derives from updating the tax rate which came into force commencing the third quarter of 2013,

Developments in Balance-Sheet Items

The balance sheet as at December 31, 2014 totaled NIS 2,417 million, compared with NIS 2,338 million on December 31, 2013.

Developments in the principal balance-sheet items:

	December 31			
	2014	2013	Change	
	In NIS millions		In NIS millions	%
Total balance sheet	2,417	2,338	79	3
Debtors in respect of credit-card activity, net	1,951	1886	65	3
Cash	15	12	3	25
Creditors in respect of credit-card activity	2,108	2,017	91	5
Subordinated notes	-	56	(56)	**(100)**
Equity	292	247	45	18

Debtors in respect of credit-card activity, net, totaled NIS 1,951 million as at December 31, 2014, compared with NIS 1,886 million at the end of 2013. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Cash totaled NIS 15 million as at December 31, 2014, compared with NIS 12 million at the end of 2013.

Subordinated notes In December 2014 the Company repaid the subordinated notes.

Creditors in respect of credit-card activity totaled NIS 2,108 million as at December 31, 2014, compared with NIS 2,017 million at the end of 2013. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Equity totaled NIS 292 million on December 31, 2014, compared with NIS 247 million at the end of 2013. The change in equity resulted from profit in 2014.

The ratio of equity to the balance sheet reached 12.1% on December 31, 2014, compared with 10.6% on December 31, 2013.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 15.7% as of December 31, 2014 according to Basel III and 16.9% as of December 31, 2013 according to Basel II.

The minimum capital ratio required by the Bank of Israel is 9%.
For further details, see chapter on Measurement and Capital Adequacy, Capital Adequacy Target, below.

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.

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.

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	4	1	*-	5
Expenses for acquisitions or usage licenses not capitalized as assets	4	-	-	4
Outsourcing expenses	3	-	-	3
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 infrastructure

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2013 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	1	-	5
Outsourcing expenses	2	-	-	2
Depreciation expenses	*-	1	*-	1
Other expenses	8	2	1	11
Total	**17**	**5**	**1**	**23**

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 infrastructure.

(2) Reclassified.

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

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 has agreements, including Bank Hapoalim (the parent company), Mizrahi Tefahot Bank Ltd., Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., Union Bank Ltd., Jerusalem Bank Ltd., and UBank 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 the regulatory effects on the segment, see also "Restrictions and Supervision of the Company's Operations," below. As aforesaid, Isracard manages and operates the credit card issuance activity and clearing activity 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: (1) the ability to issue credit cards under an international license; (2) collaboration with the Banks Under Arrangement for the distribution and issuance of credit cards, and collaboration with additional such banking corporations for the distribution of credit cards, including the integration of a bank card with the credit card issued to the customer; (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.

Products and Services

The Company issues American Express credit cards for use in Israel and abroad. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally. The Company issues a range of credit cards tailored to various population segments, including club cards, Business cards for corporate clients, specialized purchasing cards, Platinum cards for high net worth clients, and Centurion cards for ultra-high net worth clients. In addition, the Company, through Isracard, offers various credit plans based on Credit plans, various all-purpose loans based on credit facilities in credit cards, various options for spreading payments, and information services and certifications.

Segmentation of Income from Products and Services

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

The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) fees paid by merchants to issuers in respect of transactions executed using credit cards issued by the issuer and cleared; (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 and exemptions; (3) deferred-debit fees – fees collected from cardholders in respect of transactions in which the merchant spreads the amount of the purchase into installments, or when the merchant defers the charge for the transaction beyond the nearest debit date; and (4) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS.

The main expenses associated with this segment are expenses for customer-club marketing, advertising, and management; the loyalty program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 17 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operationing Data," above.

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.

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors. As at the date of the report, there are no cardholders (bank and/or non-bank) whose share of the volume of transactions executed using the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2014.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted through a specialized marketing department within the Company, on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, operation of a loyalty program, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, unique services offered to customers (including concierge services and international plans providing discounts and benefits), a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the "Cessation of Activity of a Bank in Israel" and "Competition."

Within the activity of customer clubs, the Company customarily enters 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 career military personnel and retirees, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, and the Life-Style Club.

The Company has started to reinforce its activity in the area of presence and communication with customers in the digital world. As part of a broad plan to improve marketing communications with customers, several processes were carried out in this area: extensive activity on Facebook, throughout the year, aimed at connecting the audience with the product interactively – through interactive digital activities and the launch of smartphone applications.

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," 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.

Credit-card companies authorized to issue MasterCard and Visa cards and to clear transactions executed using these cards can clear MasterCard and Visa cards, according to each company's authorizations**.**

Critical success factors in the operating segment, and changes therein – In the opinion of the Company, the main critical success factors in the Clearing Segment 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. With regard to the Supervisor's draft concerning clearing licenses, see the section Additional Regulation, Section 6, below.

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.

Products and Services

The Company clears transactions with merchants which have entered into 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, which are allocated to the Issuance 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 17 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, as well as discounting companies, which enter into three-fold agreements: agreements with the Company, as a clearer, for the provision of discounting services, and concurrently, agreements with merchants, which also have clearing agreements with the Company. For this purpose, the discounting company is a customer of the Company for the provision of clearing services, like any other merchant, and is counted quantitatively along with the merchants that have clearing agreements with the Company. 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 2014.

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 Company's key objectives in its 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.

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.

Seasonality

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

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

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 (income)			
Provisions for credit losses	1	(*-)	1
Operations	65	32	97
Sales and marketing	59	10	69
General and administrative	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 (loss) 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 lower than NIS 0.5 million.

** Higher than 100%

Financial Information on the Company's Operating Segments (cont.)

Quantitative Data on Operating Segments

Reported amounts

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)			
Provisions for credit losses	1	(*-)	1
Operations	55	39	94
Sales and marketing	52	10	62
General and administrative	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 (loss) 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 lower than NIS 0.5 million.

** Higher than 100%

(1) Restated.

Financial Information on the Company's Operating Segments (contd.)

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2012		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	44	248	292
Inter-segmental fees	105	(105)	-
Total	**149**	**143**	**292**
Net interest income (expenses)	(*-)	7	7
Other income (expenses)	2	(1)	1
Total income	**151**	**149**	**300**
Expenses			
Provisions for credit losses	5	1	6
Operations	53	38	91
Sales and marketing	46	8	54
General and administrative	12	13	25
Payments to banks	33	40	73
Total expenses	**149**	**100**	**249**
Profit before taxes	**2**	**49**	**51**
Provision for taxes on profit	1	12	13
Net profit	**1**	**37**	**38**
Return on equity (percent net profit out of average capital)	0.6	** -	20.7
Average balance of assets	1,821	249	2,070
Average balance of liabilities	109	1,777	1,886
Average balance of risk-adjusted assets	1,410	216	1,626

* Amount lower than NIS 0.5 million.

** Higher than 100%

(1) Restated.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's loss totaled NIS 6 million in 2014, compared with loss of NIS 3 million in 2013.

The rate of negative return on average equity in 2014 was 2.6%, compared with a negative return on equity of 1.6% in 2013.

Developments in Income and Expenses

The segment's income totaled NIS 165 million in 2014, compared with NIS 153 million in 2013, an increase of 7.8%.

Income from fees totaled NIS 161 million in 2014, compared with NIS 152 million in 2013, an increase of 5.9%.

Net interest income amounted to an an amount lower than NIS 0.5 million in 2014, similar to 2013.

Expenses before payments to banks totaled NIS 140 million in 2014, compared with NIS 122 million in 2013, an increase of 14.8%.

Expenses including payments to banks totaled NIS 173 million in 2014, compared with NIS 157 million in 2013, an increase of 10.2%.

Expense in respect of credit losses totaled NIS 1 million in 2014, similar to 2013.

Operating expenses totaled NIS 65 million in 2014, compared with NIS 55 million in 2013, an increase of 18%.

Sales and marketing expenses totaled NIS 592 million in 2014, compared with NIS 52 million in 2013, an increase of 13.5%.

General and administrative expenses totaled NIS 15 million in 2014, compared with NIS 14 million in 2013, an increase of 7.1%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 33 million in 2014, compared with NIS 35 million in 2013, a decrease of 5.7%.

The ratio of expenses to income before payments to banks reached 84.8% in 2014, compared with 79.7% in 2013.

Loss before taxes totaled NIS 8 million, compared with net profit of NIS 4 million in 2013.

The provision for taxes on profit in 2014 amounted to income in the amount of NIS 2 million, compared with an income of NIS 1 million in 2013.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 51 million in 2014, compared with NIS 46 million in 2013, an increase of 10.9%. The increase in the segment's net profit in comparison to the preceding year mainly resulted from an increase in the volume use of the Company's credit cards in Israel.

Developments in Income and Expenses

The segment's income totaled NIS 173 million in 2014, compared with NIS 170 million in 2013, an increase of 1.8%, resulting from an increase in the Company's volume of activity.

Income from fees totaled NIS 171 million in 2014, compared with NIS 165 million in 2013, an increase of 3.6%, resulting from an increase in the domestic volume of purchases using the Company's cards and an increase in the number of credit cards.

Net interest income totaled NIS 3 million in 2014, compared with NIS 5 million in 2013, a decrease of 40%.

Expenses before payments to banks totaled NIS 55 million in 2014, compared with NIS 62 million in 2013, an increase of 11.3%.

Expenses including payments to banks totaled NIS 104 million in 2014, compared with NIS 109 million in 2013, a decrease of 4.6%.

Income in respect of credit losses totaled less than NIS 0.5 million in 2014, similar to 2013.

Operating expenses totaled NIS 32 million in 2014, compared with NIS 39 million in 2013, an increase of 17.9%.

Sales and marketing expenses totaled NIS 10 million in 2014, similar to 2013.

General and administrative expenses totaled NIS 13 million in 2014, similar to 2013.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 49 million in 2014, compared with NIS 47 million in 2013, an increase of 4.3%, resulting from growth in the Company's revenues.

The ratio of expenses to income before payments to banks reached 31.8% in 2014, compared with 36.5% in 2013.

Profit before tax totaled NIS 69 million in 2014, compared with NIS 61 million in 2013, an increase of 13.1%.

The provision for taxes on profit totaled NIS 18 million in 2014, compared with NIS 15 million in 2013, an increase of 20%.

Intangible Assets

The agreement with the international American Express Organization for the issuance and clearing of American Express cards in Israel was renewed, for a period of seven additional years, in April 2010. 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.

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

The number of employee positions fell in 2014 by 2 positions, compared with the end of 2013*.

	2014	**2013**
Average positions on a monthly basis	158	162
Total positions at year end	160	162

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

Trends in Human Resources

Human resources strategy emphasizes organizational stability, with the integration and cultivation of the values of upholding the ethical code, openness, and transparency, along with innovation and achievement, engaging the employees in the Company's business objectives.

In 2014, the Company continued to maintain this policy, through:

1. Labor relations – 2014 was characterized by maintaining stable and quiet labor relations and 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. Examination 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. Involvement and cultivation of satisfaction – encouragement of employees' engagement 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, and on creating the feeling that "we are all one family." These values, which strengthen employees' connection and identification with the Company, are reinforced by means of a range of activities for the well-being of 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 support and guidance for the process of consolidation of call centers, which encompasses adaptation of recruitment and training processes and guidance of the change with support for managers and advice on communication of the messages related to the change; development of an experiential, varied and unique learning environment; and improved efficiency of the training program.

8. Corporate responsibility, ethics and regulations – Assimilation of the ethical code and encouragement of dialog on the subject, addressing the regulatory provisions regarding accessibility and corporate responsibility.

9. Occupational stability in the area of service, designed to increase the number of senior agents at the customer-service centers.

10. Encouragement of volunteering through organizational units, one-time activities, and recurring activities, in order to promote the value of giving back to the community.

Think Innovation – Cultivating Innovation Within the Organization

For more than two years, the Company has been taking steps to instill an organizational culture that supports innovation by harnessing the Company's managers and employees to innovative thinking. The process this year began in an inspirational conference and continued in meetings of think-tanks in an innovation room which was set up in the Company. Ideas which began their way at the conference and in the think-tanks at the innovation room matured into changes and innovations which were implemented and expressed in everyday activity.

Fostering employee satisfaction and engagement

This year, the Isracard Group was ranked the best credit card company to work for, in fifth place among the financial organizations and in nineteenth place among the best 100 companies to work for in a BDI survey.

As part of the strategic partnership and collaboration with the various divisions, several activities for employees were conducted during the year with the aim of encouraging employee involvement in the Company's business objectives and turning employees into ambassadors. The range of activities increased motivation to improve sales, pursue organizational learning, suggest new ideas, improve processes, and apply lessons learned.

Corporate Responsibility, Ethics and Regulation

This year, the Corporate Responsibility Report of the Isracard Group was published for the first time, presenting the Group's activity, and the significant effect of stakeholders in the Isracard Group in the area of corporate responsibility in the years 2012-2013.

As a leader in its field, 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. The code reflects the unique values and the code of conduct to which we are committed. This year, the ethical code was validated and updated in a comprehensive and participatory process, in accordance with environmental and technological changes which had occurred in recent years. As a part of this process, the code was designed and made accessible as a guide and teaching tool for solving everyday dilemmas.

During the year, the department conducted administrative work which aims to adapt 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 2014 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 2014, 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; and supporting structural/organizational changes in the various divisions. The Company also worked on training and enhancing the knowledge of employees and executives in various roles: continuing to instill a culture of winning service – the customer as our guest; teaching tools for the encouragement of creativity and openness to innovation; imparting sales skills to various groups within the Company; providing in-depth professional knowledge in the areas of credit and sales; and encouraging employees to acquire higher education.

Occupational Stability

Employee retention in general, particularly those in the call centers, 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. In 2014, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, open to others and to those who are different, and the creation of a more tolerant community of employees, with respect and appreciation for others.

Community Involvement and Contribution

Most of the activity in the area of community involvement and contributions is conducted through Isracard.

Service Providers

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 "Contractual engagement between the Company and Isracard Ltd.", above.

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 data related to transactions executed using credit cards in Israel, such as transactions executed with 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, through Isracard, 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 contractual engagement 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.

Financing

The Company mainly finances its operations through its own means and through daily short-term on-call loans from banks.

Among other matters, the directives of the Supervisor of Banks include restrictions which affect the ability of banking corporations in Israel to extend credit in excess of certain amounts, including limits relating to the total indebtedness of a "single borrower" or of a "group of borrowers" (as these terms are defined in the directives), and to the total indebtedness of the six largest borrowers of a banking corporation. The Company, as part of the Bank Hapoalim Group, is liable to be limited from time to time in receiving credit from other banking corporations because of these directives. According to the Company's estimate as at the date of the report, there is no effective restriction on the receipt of credit under the aforesaid directives.

With effect from 2015, the Company received an approved credit facility from Bank Hapoalim in accordance with business requirements.

Taxation

Changes in Tax Rates

On August 5, 2013, the Knesset approved the Law for a Change in the National Priorities (Legislative Amendments to Achieve the Budget Targets for 2013 and 2014), 2013, which provided, inter alia, an increase in the rate of corporation tax with effect from 2014 and thereafter at a rate of 1.5%, such that it would stand at 26.5%. For further details, see Note 22 to the Financial Statements.

National Insurance

On January 27, 2014, the Law for the Reduction of the Deficit and Change in the Tax Burden (Legislative Amendments), 2014 (hereinafter – "the Law") was approved in the Knesset. Pursuant to the Law, the rate of National Insurance fees collected from employers in respect of the proportion of the salary exceeding 60% of the average salary in the economy fell to 6.75% in 2014 and to 7.25% in 2015 (instead of 7% and 7.5%, respectively). From January 1, 2016 and thereafter, the rate in question will be 7.5% of the average salary.

Other Matters

1. With regard to the bonus plan for senior executives, see Note 11.B and 11.C to the Financial Statements.

2. With regard to the agreement with the employees' union, see Note 11.F to the Financial Statements.

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.

Antitrust Issues

Pursuant to an arrangement between Isracard 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 stood at 0.735% as of July 1, 2013, and the average issuer fee will stand at 0.7% and 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.

Additional Regulation

1. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. As at the date of this report, there is no group of

borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Proper Conduct of Banking Business Directive No. 313).

2. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions which will be considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the proposed law. In February and April 2014, the Constitution Committee held discussions in preparation for a second and third reading. In December 2014, the Knesset plenum approved the proposed law in a second and third reading.

3. In September 2013, the Supervisor of Banks issued a circular concerning early publication of financial statements to the public, and updated the Public Reporting Directives on this matter. Pursuant to the directive, banking corporations and credit-card companies will be required to make a gradual change such that by 2016 their quarterly financial statements are published no later than 45 days from the end of the quarter, and their annual financial statements are published no later than two months from the end of the year.

4. In September 2013, the Banking Supervision Department published a directive concerning reduction or increase of interest rates, pursuant to which for floating-rate loans (including credit facilities for charge cards) granted to an "individual" or a "small business," when the interest rate on the loan changes, the banking corporation must apply the same reduction or increase to the base interest rate that applied when the loan was granted. In April 2014, the Banking Supervision Department published a file of questions and answers in connection with the directive.

5. In October 2013, the Constitution, Law and Justice Committee approved various amendments to the Prohibition on Money Laundering Law and the Prohibition on Terrorism Financing Order applicable to banking corporations, including rules on the subject of the "Know Your Customer" procedure. In February 2014, the amendment to the order was published in the Official Gazette of the Israeli Government.

6. In November 2013, a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Pillar 3 of Basel II – Disclosure Requirements Concerning Remuneration" was issued. The new disclosure requirements are intended to support effective market discipline and allow market users to estimate the quality of remuneration methods and the manner in which they support the strategy and risk position of banking corporations. See "Measurement and Capital Adequacy" section in the Report of the Board of Directors, below.

7. In November 2013, the Banking Supervision Department issued a directive concerning remuneration policy in banking corporations. The directive establishes rules which are aimed at ensuring that remuneration arrangements at banking corporations are consistent with their risk-management system and long-term goals. Accordingly, relevant amendments were made to the Proper Conduct of Banking Business Directive concerning the Board of Directors. In March 2014, the Banking Supervision Department approved that private subsidiaries of banking corporations should formulate remuneration policy in accordance with the directive no later than September 30, 2014. The Company has taken steps in accordance with the principles of the directive.

8. In February 2014, a memorandum for an amendment to the Arrangement of Non-Bank Loans Law was published, according to which, among other measures, an interest ceiling will apply, in accordance with the provisions in the memorandum, to loans granted by banking corporations. Comments on the memorandum may be submitted until March 23, 2014.

9. In February 2014, a proposed Law for Increase of Competition in the Area of Credit was placed on the Knesset table, and in March and April 2014, proposed laws for amending the Banking Licensing Law was placed on the Knesset table, pursuant to which, among other things, a banking corporation will be prohibited from controlling or holding the means of control in credit card companies or operating the means of control, as aforesaid. The proposed law from February was rejected by the Ministerial Committee for Legislative Affairs in November 2014.

10. In September 2014, a circular was published by the Banking Supervision Department on the topic of Proper Conduct of Banking Business Directive no. 221 "Liquidity Coverage Ratio". 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. In addition, in September 2014, a circular was published by the Bank of Israel on the subject, Temporary Provision – Implementation of the Disclosure Requirements according to Pillar 3 of Basel – Disclosure in respect of liquidity coverage ratio, according to which banking corporations and credit card companies are required to provide disclosure in respect of liquidity coverage ratio in the financial statements. The effective date of the directive has been set at April 1, 2015. Further, a credit card company must include quantitative and qualitative disclosure with regard to liquidity risk, according to the way in this risk is managed in a company. At this stage, the Company is examining the implications of the Directive.

11. In March 2014, an amendment to the Banking Law (Service to the Customer) was published in the Official Gazette of the Israeli Government, according to which, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as set forth in the law. The law came into force on September 10, 2014, and also applies to loans granted before the effective date.

12. In July 2014, the Banking Supervision Department published an amendment to the directive concerning the business of a banking corporation with related persons, and as a consequence, an amendment to the directive concerning the Board of Directors. The amendments were made in the framework of adjustments to changes in the Banking Law, the Banking Ordinance and directives in this area in the United States and in Europe.

13. In July 2014, the Banking Supervision Department published a directive regarding non-banking benefits to customers, which was intended to establish clear and consistent rules that would enable customers to compare to a reasonable extent the prices of banking services and products, and help them to distinguish between banking benefits and non-banking benefits, and with the objective of helping to increase competition in the banking system over the price of banking services. This directive came into effect on January 1, 2015.

14. In September 2014, the Banking Supervision Department issued a draft of a letter on the subject of risk management in the cloud computing environment, providing rules which are intended to mitigate the risks inherent in the use of cloud technology.

15 In September 2014, the Banking Supervision Department issued a draft directive on the subject of cybernetic protection management, pursuant to which banking corporations must place special emphasis and take the steps required for effective management of the cybernetic protection.

16. 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.

17. In November 2014, the Banking Supervision Department published amendments to Proper Conduct of Banking Business Directive no. 311, and canceled Directive no. 319, as part of a process for adapting the Proper Conduct of Banking Business Directives for the Basel recommendations for the supervision of banks and professional standards in leading countries around the world, and as a result of experience gathered by the Banking Supervision Department.

18. In December 2014, the Banking Supervision Department issued a draft file of questions and answers on the implementation of the Prohibition on Money Laundering and the Financing of Terrorism and Proper Conduct of Banking Business Directive no. 411 in credit card companies, which reflects the stance and binding interpretation of the Supervisor of Banks on the order and the directive.

19. In December 2014, the Knesset plenum approved in a second and third reading the proposed Law for the Dissolution of the 19th Knesset. The election recess began on Thursday, December 11, 2014, and will continue until the convening of the 20th Knesset, on March 31, 2015. The elections to the 20th Knesset will be held on March 17, 2015.

    Pursuant to the decision of the Knesset Committee on the Order of Business of the Knesset during the recess period, the Consents Committee will operate, comprised of the Chairman of the Opposition and a member of the faction of the Head of the Opposition, or a Knesset member on their behalf. During the election recess period, the Government may demand the convening of the plenum, detailing the subject for which the convening is required. The Government may request to discuss in the plenum proposed legislation in a first, second and third reading, and, in addition, 25 members of the Knesset may demand the convening of the plenum during the recess period for the purpose of discussing proposals for motions.

20. In accordance with an amendment to the Banking Rules which were published in January 2015, the number of fees collected from small business merchants receiving clearing services will be reduced, by establishing a uniform tariff-list of common services in the area, this, with effect from July 2015. In addition, in accordance with the amendment, the rules regarding fees collected from card-holders were amended, such as: the cancelation of deferred payment fees in respect of new transactions in installments made with effect from February 2015, and the standardization of the rules relating to conversion fees with effect from April 2015.

21. On April 2, 2014, a decision was approved in the Ministerial Committee for Cost of Living Matters, pursuant to which the Bank of Israel, the Antitrust Commissioner and the Supervisor of Banks will examine a number of topics relating to the implementation of immediate charge cards (debit cards) as a means of payment. Further thereto, On August 10, 2014, a memorandum of a proposed law was published, which, inter alia, authorizes the Antitrust Commissioner to determine the interchange fee in various transactions by charge card, including to determine an interchange fee of zero percent. On May 27, 2014, an interim report of the Committee for the Review of a Reduction in the Use of Cash in the Israeli Economy was issued to the public for comments. The report includes, among other things, outline recommendations presented by the Antitrust Commissioner for expanding the use of immediate charge cards and prepaid cards. On July 17, 2014, the Committee published a proposed resolution. On October 22, 2014, the Government approved the proposed resolution on the subject, as of August 6, 2014. On September 8, 2014, the Antitrust Authority published a report entitled "Increasing Efficiency and Competition in the Area of Charge Cards", including sections on recommendations for expanding the use of debit cards in Israel and for a speedy crediting of merchants in charge cards transactions. In January 2015, a memorandum of the Law for the Reduction of the Use of Cash was published and in February 2015, an amended version of the memorandum was published, which was intended to lead to the abovementioned implementation in the report of the Committee for the Review of a Reduction in the Use of Cash in the Israeli Economy, gradually establishing restrictions on the use of cash and negotiable cheques, in order to limit the phenomenon of a black economy in Israel, fight crime and money-laundering and facilitate the use of advanced and effective means of payment. Among other things, the law memorandum granted authority to the Antitrust Commissioner to determine the rates of interchange fee on debit card transactions. The law memorandum provides that the conditions of its incidence are that immediate debit cards are an available product similar to deferred debit cards. In February 2015, the Government decided to approve the law memorandum, and requested the convening of the Knesset during the recess period in order to bring the proposed law to its first reading.

22. In February 2015, the Bank of Israel published recommendations and measures to expand the circulation and use of debit cards in Israel and to increase competition in the area of charge cards. Pursuant to the recommendations, the Bank of Israel is to announce an interchange fee for transactions using debit card under supervision and its price will be fixed at a maximum rate of 0.3% for a period of a year. In addition, the Supervisor of Banks will provide directives for circulating debit cards for bank customers and rules for the immediate monetary settlement of accounts in transactions made with debit cards.

23. At the same time as that stated regarding debit cards, the Bank of Israel has published a draft directive for assimilating the use of the EMV (Europay, Mastercard and Visa) security standard, both as regards the issue and as regards the clearing.

24. In January 2015, the Banking Supervision Department published a circular containing interpretations on the topic of the duty of publishing the name of the supplier on the monthly statement to the customer. Pursuant to the circular, the obligation is on the issuer to note on the monthly statement the supplier's name. Through December 31, 2015 the rules provided will not apply to suppliers belonging to the following industries, tires, electrical products and batteries.

25. In January 2015, the Banking Supervision Department published a directive regarding a collective allowance in respect of credit to private individuals. The directive was published, inter alia, in view of a rapid increase in the extent of credit to private individuals and the risk inherent therein. Pursuant to the directive, among other things, a banking corporation is obliged to ensure that the percentage of adjustments in respect of environmental factors relevant to a credit loss allowance computed in accordance with the directive for credit to private individuals which is not problematic must not be less than 0.75% of the non-problematic credit to private individuals at that date, in relation to the range of rates of loss in the range of the years.

26. With regard to new accounting standards and new directives of the Supervisor of Banks during the period and in the period prior to implementation, see Note 1.D and 1.F to the Financial Statements.

Legal Proceedings and Pending Claims

1. Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

In addition, there are actions and requests for their approval as class actions contingent and pending against the Company, set forth as follows:

a. In April 2014, a claim and an application for recognition as a class action was received by the Company and Poalim Express. The amount of the personal claim stands at NIS 145 and the amount of the class action was not noted. According to the petitioner, who is a merchant, which was related through clearing agreements with respondents, the defendants acted illegally, in that they collected from him a minimum commission when he was related at the same time to a discounting company in an agreement, according to which it discounted through the discounting company some of the transactions that it cleared through the defendants without taking into account the amounts in which the discounting company was credited. In the opinion of the Company's legal advisors, the prospects of the claim being dismissed are greater than the chances of it being accepted.

b. In July 2014, a claim and an application for it to be recognized as a class action were received by the Company and Poalim Express against the Company and other credit card companies. The amount of the personal claim is NIS 17 and the amount of the class action is estimated at NIS 200 million. The petitioners allege that the way in which the companies conduct the conversion of transactions made in foreign currency into shekels is not appropriate, constitutes an additional commission in respect of which fair disclosure appropriate for customers is not provided, and that, in doing so, the Company breaches various provisions of the law. The Company has submitted a request for outright rejection of the request. In January 2015, the court addressed the plaintiff's petition to consolidate deliberations on the claim with discussion on a similar cause for action which was submitted against banks. In the opinion of the Company's legal advisors, the prospects of the claim are remote.

2. 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 indemnity letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted for changes in the legislation. The amount of the indemnity 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 must not exceed 50% of its capital, according to the most recent (annual or quarterly) financial statements known before the actual payment.

Objectives and Business Strategy

The Company's key objectives and strategies as a part of the Isracard Groupare the following:

1. Creation of value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the loyalty club strategy.
5. Expansion in the area of credit and financing for merchants.
6. Maintaining the Company's image and assets.
7. Extending collaborations with merchants.
8. Continuing improvement in quality of service to banks, loyalty clubs, merchants, and cardholders.
9. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.
10. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards the customers' first choice.
11. High-quality systems of risk management, credit control, and fraud prevention.
12. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

The Company is also exposed to various qualitative risks, such as reputation risk, strategic risk, regulatory risk, legal risk, and compliance risk.

Risks are managed pursuant to Proper Conduct of Banking Business Directive No. 310 and in compliance with Proper Conduct of Banking Business Directives No. 201-211 ("Measurement and Capital Adequacy"). Between December 2012 and June 2013, the Bank of Israel issued several substantial updates of the Proper Conduct of Banking Business Directives, Directive 311, "Credit Risk Management"; Directive 301, "Board of Directors"; Directive 342, "Liquidity Risk Management"; Directive 333, "Interest Rate Risk"; and Directive 339, "Market Risk and Interest Rate".

According to a decision of Management, each member of Management manages operational risks, reputation risks and legal risks in the area of activity for which he or she is responsible. The Head of Finance and Administration is responsible for market and liquidity risks, the Head of Credit and Financial Services is responsible for credit risks, and the Head of Strategy is responsible for strategic risk and regulatory risk. The Company has a Head of Risk Management with the status of a member of Management. In addition, the organizational structure of the Risk Management Department was updated in the format outlined by the Bank of Israel. Among other matters, the functions of the department include independent supervision of the manner of management of risks at the Company, monitoring of risks, reports to Management and to the Board of Directors, validation of risk-measurement systems, responsibility for the preparation of a credit policy document, rendering independent opinions in respect of extending material credit, making recommendations regarding the rates of collective credit loss allowance, and examination of the effectiveness of the Company's risk-management processes. In order to manage and minimize risks, the Company makes use of supporting computerized systems, among other means.

The Risk Management Committee of the Board of Directors convenes on a quarterly basis. In addition, the Risk Management Forum is headed by the CEO. The forum convenes quarterly, with the aim of ensuring adequate control coverage for risk-management processes and formulating an continuous process for improving the effectiveness of risk-management control mechanisms in the Company, at the level of the risk-taking divisions, the independent control units in the divisions, and the Risk Management and Security Division.

Operational Risks

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

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

As part of the management and control of operational 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:

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

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 2014. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in interest rates, the CPI, foreign exchange rates.. The Board of Directors of the Company updates these limits from time to time.

The market risk management philosophy corresponds to the policy described in the Company's basic risk management document.

In addition, the Company has a designated function for the management and control of risks, independent of the business functions. The Risk Management Department maintains control over material risks in the Company; its roles are defined in the basic risk management document.

The Company manages market risks based on a comprehensive, integrative view, ensuring the optimal utilization of the capital and assets of the Company, in order to achieve its strategic and business objectives while maintaining its stability. 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, Isracard, which administers and operates the Company's operations, as noted above uses a dedicated automated asset and liability management system. The Company believes that its exposure to market risks is immaterial.

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, designed to support the achievement of business objectives while assessing and limiting the losses that may arise from exposure to market risks.

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.

1. Fair value of financial instruments of the Company, excluding non-monetary items

	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**

	December 31, 2013				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	2,245	9	58	4	2,316
Financial liabilities	2,007	9	54	3	2,073
Net fair value of financial instruments	**238**	**(*-)**	**4**	**1**	**243**

* Amount lower than NIS 0.5 million.

** Including Israeli currency linked to foreign currency.

2. **Effect of hypothetical changes in interest rates on the fair value of financial instruments of the Company, excluding non-monetary items**

	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.

2. **Effect of hypothetical changes in interest rates on the fair value of financial instruments of the Company, excluding non-monetary items (cont.)**

	December 31, 2013						
	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%	239	(*-)	4	1	244	1	0.4
Immediate parallel increase of 0.1%	238	(*-)	4	1	243	*-	-
Immediate parallel decrease of 1%	237	(*-)	4	1	242	(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.

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. During the reported year, no transactions in securities were executed.

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 to the Company is for the purposes of economic hedging.

No transactions in derivative financial instruments were executed during the reported year.

2. Liquidity Risk Exposure and Management

The goal of the liquidity risk management process is to ensure, taking into account the risk tolerance that has been established, the Company's ability to finance the increase in its assets and to settle its liabilities on time, without falling into difficulties and without incurring material losses, including losses that may result from damage to reputation 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 ability of the Company 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 reputation 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, without connection to 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 2014. 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 liquidity position of the Company through the use of an internal liquidity risk management model, monitoring of the indicator system for the identification of liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current flow management. The disposable capital of the Company is used to give credit to cardholders and merchants, and invested in deposits with banks in NIS. Liquidity risks at the Company are managed by the Head of Finance and Administration.

Credit Risk

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

The Company's credit policy is approved each year by the Board of Directors of the Company. The credit policy addresses principles for granting credit, the type of exposure in each segment of activity, quantitative and qualitative exposure limits, credit concentration, pricing and collateral, handling customers experiencing difficulties, and the hierarchy of credit-granting authority.

The credit-management system relies on the delegation of credit authority at different levels. The overall responsibility for direct handling of customers rests with several authorized parties, leading to improved capability to manage credit risks and monitor and control the credit-granting process. The Company routinely monitors and tracks borrowers through control reports generated at various cross-sections and frequencies.

The Company regularly invests resources in training employees responsible for making decisions, in assessing risks in the area of credit, and in improving the computerized control tools and information systems available to them.

The Company also carries out routine control of internal and regulatory limits on the level of indebtedness of a single borrower and of a group of borrowers, in accordance with the requirements of Proper Conduct of Banking Business Directive No. 313 of the Bank of Israel.

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 Supervisor Reporting Directive No. 815 of the Supervisor of Banks.

The Company implements Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management," which came into force on January 1, 2014. The main points of the directive are focused on the adoption of the approach requiring the involvement of a function independent of the business units to support appropriate decision-making regarding credit; this function should address and participate in the formulation of credit policy, the formulation of recommendations concerning collective allowances, and expressing an independent opinion regarding material credit exposures.

On November 23, 2014, a circular was published updating Proper Conduct of Banking Business Directive No. 311, with effect from April 1, 2015. The main change in the update is focused on Principle 14 "Credit Control", according to which there is a requirement to establish a credit control unit which will operate according to an annual and multi-year work plan, incorporating the regulations in the directive. In addition, it requires that the credit control unit will report to the Chief Risk Officer of the banking corporation, or to any another factor who is independent of the business units or to the board of directors. The Company is prepared for implementation of the directive.

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, volume of credit, and interest rate set for the customer or merchant.

The models are tested periodically for quality and calibration and are established in accordance with internal and regulatory requirements.

Credit Risk in Respect of Exposure to a Group of Borrowers

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Borrower and of a Group of Borrowers" (hereinafter: "**Directive 313**"), there is no group of borrowers that exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at December 31, 2014.

Credit Control Department

The Company receives services for the purposes of credit control from Isracard, under the responsibility of the Head of Credit and Financing Services.

Credit Exposure to Foreign Financial Institutions and Foreign Countries

As at the reporting date, the Company has immaterial exposure to the international organization American Express Ltd., in respect of balances of transactions executed by tourists in Israel, less balances of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization.

Measurement and Disclosure of Impaired Debts, Credit Risk, and Allowance for Credit Losses

The Company implements the directives of the Banking Supervision Department concerning the measurement and disclosure of impaired debts, credit loss, and allowance for credit losses.

On February 10, 2014, the Banking Supervision Department 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.

Risk of problematic credit and nonperforming assets

	Balance as at December 31, 2014	Balance as at December 31, 2013
	Reported amounts	
Consolidated	**In NIS millions**	
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	2	3
Inferior credit risk	1	1
Credit risk under special supervision (4)	5	* -
Total problematic credit risk	**8**	**4**
Of which: Unimpaired debts in arrears of 90 days or more	-	-
2. Nonperforming assets (2)		
Impaired debts	2	3
Total nonperforming assets (2)	2	3

* Amount less than NIS 0.5 million.

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

(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.

(4) Since 2014, the Company for the first time identified and classified debts under special supervision in the collective track

Risk and Credit Indices

		December 31	
		2014	2013
		In percent	
(A)	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit-card activity	0.10	0.16
(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)	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	0.53
(D)	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 not accruing interest income	(1) -	(1) -
(E)	Problematic credit risk as a percentage of total credit risk	0.08	0.04
(F)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.05	0.06
(G)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.05	0.06
(H)	Net charge-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	9.09	10.00

* More than 100%.

Measurement and Capital Adequacy

Since January 1, 2014, the Company implements the measurement and capital adequacy provisions which are based on the Basel III directives (hereinafter:"**Basel III**"), as published by the Supervisor of Banks and as integrated into the Proper Conduct of Banking Business Directives No. 201-211. Until December 31, 2013, the Company implemented the Basel II directives.

Pursuant to the directives, in addition to the calculation of the minimal capital requirement in respect of credit risk, market risk and operational risk, the Company is required to carry out an internal process for a fair assessment of the capital adequacy (ICAAP) which is submitted each year. In April 2014, the Board of Directors received the review on the subject of the ICAAP and approved the report on the internal process for assessing the Company's capital adequacy for 2013.

Adoption of the Basel III directives

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 regarding measurement and capital adequacy, in order to adapt them to the Basel III directives.

The Basel III directives provide significant changes in the calculation of the regulatory capital requirements, including, all matters related to:

- Components of regulatory capital
- Deductions from capital and regulatory adjustments
- Treatment of exposures for 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 aforementioned directives came into effect on January 1, 2014, with the implementation being gradual in accordance with the transitional provisions set forth in Proper Conduct of Banking Business Directives No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Directives", in order to enable compliance with the new requirements of regulatory capital in the context of the implementation of Basel III and to establish a transitional period until it is implemented fully. The transitional directives relate to, among other things, the regulatory adjustments to and deductions from capital, and to ineligible capital instruments for inclusion in regulatory capital according to the new criteria provided in the Basel directives. In particular, pursuant to the transitional directives, the regulatory adjustments to and deductions from capital and the ineligible minority interests to be included in regulatory capital will be deducted from capital gradually at a rate of 20% per annum, with effect from January 1, 2014 until January 1, 2018. The capital instruments which are still ineligible as regulatory capital will be recognized up to a ceiling of 80% on January 1, 2014 and in each subsequent year, this ceiling will be reduced by a further 10% until January 1, 2022.

In addition, on August 29, 2013, a circular of the Supervisor of Banks was published on "Disclosure Regt of Base relating to the Composition of Capital" (hereinafter: "**the circular**"). The circular provides updated disclosure requirements which the banks and credit card companies will be required to include as a part the adoption of the Basel III directives.

Accordingly, in the context of the note on the capital adequacy in the quarterly financial statements in 2014, disclosure of the comparative figures for previous periods was given prepared in accordance with the Basel II directives, as adopted by the Supervisor of Banks, as well as the disclosure of the audited comparative figures as of January 1, 2014 which were prepared in accordance with the Basel III directives.

Minimum 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, as set forth below.

Capital adequacy target

The capital ratio 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%.

Risk Appetite

The Board of Directors of the Company has defined its risk appetite and risk capacity, in line with the strategy and future business plans of the Company. Risk appetite reflects and defines the risk level to which the Company is willing to be exposed, or which it is willing to accept or sustain, during the ordinary course of business. Risk appetite serves as the basis for the allocation of resources and capital.

Risk capacity reflects the risk level which the Company will not exceed even in the event of the materialization of extreme scenarios. In light of the above, the maximum risk level undertaken by the Company during the ordinary course of business is lower than its risk capacity.

The Management of the Company is responsible for routine monitoring, and ensures through the definition and enforcement of appropriate risk limits that the Company operates within its declaration regarding risk appetite and risk capacity, as defined, through the use of risk limits, among other means.

Management

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), vis-à-vis the capital adequacy targets and risk appetites.

Applicability of Implementation

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

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 – " Measurement and Capital Adequacy" ((201-211 and 299).

Full disclosure regarding regulatory capital instruments (quantitative information and characteristics) and additional details regarding Pillar 3 of the Basel directives may be found on the Company's website www.americanexpress.co.il/annualreportshebrew

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Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2014	January 1, 2014	December 31, 2013
	Basel III (1)		Basel II (2)
	In NIS millions		
Tier 1 Shareholders' equity / Core capital and Tier 1 capital	292	247	247
Tier 2 capital	13	57	56
Total overall capital	**305**	**304**	**303**

2. The risk assets and capital requirements in respect of credit risk, market risk and operational risk are as follows:

	As of December 31, 2014		As of January 1, 2014		As of December 31, 2013	
	Basel III (1)				Basel II (2)	
	Weighted balances of risk assets	Capital Requirements	Weighted balances of risk assets	Capital Requirements	Weighted balances of risk assets	Capital Requirements
	NIS millions					
Credit risk:						
Public sector entities	* -	* -	-	-	-	-
Banking corporations	941	117	921	115	921	83
Corporations	166	21	104	13	102	9
Retail for individuals	398	50	394	49	389	35
Small businesses	12	2	8	1	8	1
Other assets	28	3	27	4	15	1
Total credit risk	**1,545**	**193**	**1,454**	**182**	**1,435**	**129**
Market risks – Foreign currency exchange rate risk	12	2	5	1	5	1
Operational risk	381	47	348	43	348	31
Total weighted balances of	**1,938**	**242**	**1,807**	**226**	**1,788**	**161**

risk assets/ capital requirements						

3. Capital to risk components ratio

	As of December 31, 2014	As of January 1, 2014	As of December 31, 2014
	Basel III (1)		Basel II (2)
	NIS millions		
Total capital and Tier 1 capital ratio			
Capital for capital ratio computation purposes (NIS millions)	305	304	303
Tier 1 shareholders' equity / core capital and Tier 1 capital to risk assets ratio /	15.1%	13.7%	13.8%
Overall capital to risk assets ratio	15.7%	16.8%	16.9%
Minimum total capital ratio required by the Supervisor of Banks	-	-	9.0%
Minimum Tier 1 shareholders' equity ratio required by the Supervisor of Banks with effect from January 1, 2015	9.0%	9.0%	-
Minimum overall capital ratio required by the Supervisor of Banks with effect from January 1, 2015	12.5%	12.5%	-

* Less than NIS 0.5 million.

(1) Computed in accordance with Proper Conduct of Banking Business Directives No. 201-211 and 299 "Measurement and Capital Adequacy", effective from January 1, 2014.

(2) Computed in accordance with Proper Conduct of Banking Business Directives No. 201-211 "Measurement and Capital Adequacy", effective until December 31, 2013.

(3) The capital requirement was computed at a rate of 12.5%, compared with 9% last year.

Structure of regulatory capital

The composition of capital for the purposes of calculating the capital ratio is as follows:

	As of December 31, 2014	As of January 1, 2014	As of December 31, 2014
	Basel III (1)		Basel II (2)
	NIS millions		
Tier 1 capital			
Ordinary paid-up share capital	* -	* -	* -
Share Premium	35	35	35
Retained earnings	257	212	212
Other capital instruments	* -	* -	* -
Total Tier 1 shareholders' equity / core capital and Tier 1 capital	292	247	247
Tier 2 Capital			
Deferred notes	(3) -	45	56
Collective allowance for credit losses	13	12	-
Total eligible capital	**305**	**304**	**303**

* Amount less than NIS 0.5 million.

(1) Computed in accordance with Proper Conduct of Banking Business Directives No. 201-211 and 299 "Measurement and Capital Adequacy", effective from January 1, 2014, The data as of January 1, 2014 are on the basis as of December 31, 2013.

(2) Computed in accordance with Proper Conduct of Banking Business Directives No. 201-211 "Measurement and Capital Adequacy", which were effective until December 31, 2013.

(3) In December 2014, after receiving approval of the Banking Supervision Department, the Company repaid the deferred notes in full.

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and the allowance for credit losses, and the amendment of the directives on the treatment of problematic debts, beginning on January 1, 2014, the Company implements the provisions Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management." which is focused on the adoption of the approach requiring the involvement of a function independent of the business units to support appropriate decision-making regarding credit; this function should address and participate in the formulation of credit policy, classification of problematic debts, and approval of material credit exposure.

Credit Risk Management

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.

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

- 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.

- The Company tracks damages arising from the abuse of credit cards. See Note 19 to the financial statements.

Principles of Credit Concentration Risk Management

- In accordance with the Second Pillar of Basel III, 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.

Assigning Risk Ratings to Customers Based on Statistical Models

♦ 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.

♦ Models are divided as follows:

1. AS (application scoring) model for new customers;

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

3. SME (small-medium enterprise) model – a model for business 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 Financial Services Division, and validated by the Risk Management Department (the second level of controls).

Establishing the Hierarchy of Credit Granting Authority

The establishment of the hierarchy is aimed at maintaining the quality of the Company's credit portfolio, while supervising credit approvals, according to the appropriate professional authority. Credit is granted at the Company according to a hierarchy of authority, including:

- Authorization for maximum exposure according to the authority of the responsible party (in accordance with the risk-rating model).

- Defined authorizations for deviations for exceptional transactions, according to the authority of the responsible party.

- Defined hierarchy of authority for the establishment of the interest rate for the credit.

Exposure to Financial Institutions

- The Company's operations involve exposure to financial institutions, in Israel and globally – Cross-clearing activity occurs between the Company and credit-card companies in Israel.

- Banks in Israel – Credit-card activity under the responsibility of banks is conducted with banks in Israel. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.

- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel: deposits of foreign currency with financial institutions abroad. The Company's exposure is not material.

- The Company routinely monitors these exposures and reports deviations from limits.

Credit exposure to financial institutions results primarily from:

- Transactions in credit cards issued by banks with which the Company has arrangements – the exposure is formed when the Company uses its own funds to finance the time gap between the date of crediting the merchant and the date of transfer of the payments by the Banks Under Arrangement. If a bank becomes insolvent, there is a risk that the funds may not be transferred to the Company, which would then absorb the losses from its capital.

- Deposits with banks – deposits placed by the Company with banks create an automatic exposure to such banks.

Independent Supervision

The Chief Risk Officer maintains independent supervision of the manner in which credit risks are managed at the Company. This supervision includes:

- Checking compliance with credit policy directives and with the instructions of the Bank of Israel.

- Active involvement in establishing credit policy, including credit limits. Control over the implementation of credit policy.

- Identifying new risks and emerging risks.

- Reporting the results of the monitoring to senior management and to the Board of Directors.

- Monitoring risk-assessment models.

Reports to Management and the Board of Directors and Compliance with Policies and Procedures

- The Company's credit policy is updated and approved by the Board of Directors each year, according to developments at the Company, in the industry, and in the economy.

- The Company's Management is provided with data on the Company's credit-portfolio mix each month. The mix presents the segmentation of the portfolio in terms of credit products, sectors, risk ratings, geographical distribution, compliance with regulatory and internal limits, a risk-return analysis, etc.

- The credit-portfolio mix is presented to the Board of Directors of the Company on a quarterly basis.

- The Chief Risk Officer submits an independent report to Management on the control over credit-risk management each month.

- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.

- Working procedures at the Company are updated routinely by the various departments.

Off-Balance-Sheet Exposures

The Company uses a credit conversion factor (CCF) to convert its off-balance-sheet credit exposures into credit exposures under Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"), as described below:

- Unutilized credit facilities of credit cards for holders of retail cards – 10%*.

- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders and check guarantees, for a period of up to one year – 20%.

- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders, for a period of more than one year – 50%.

(*) With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Company, the repayment capability of retail cardholders is effectively monitored through various control tools, including the use of behavioral rating models and monitoring activities performed routinely by the Security Department.

With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Banks Under Arrangement, approvals were received from the banks with regard to the existence of effective monitoring of the repayment capability of the holders of the retail cards.

General Disclosure Regarding Exposures Related to Counterparty Credit Risk

Hedging Interest-Rate Exposures

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, and therefore, there is exposure to changes in interest rates in the course of the Company's routine activity.

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

Hedging Foreign Currency Exposures

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.

Disclosure by Companies Using the Standardized Approach

General

The Company accounts for all of its assets and liabilities using the standardized measurement approach, as defined in Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"). The Company does not have a trading portfolio, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

The Board of Directors of the Company approves the market risk management policy of the Company on an annual basis. The Board of Directors is involved in risk management, particularly in setting limits and restrictions for the volume of activity and exposures.

The Company’s strategy in the management of market risks is to minimize risks arising from its main activities (issuance, clearing, and financing); the Company has a very low “risk appetite” for market risks.

Within this strategy, the Board of Directors and Management of the Company approve the Company’s policy document, on an annual basis. The policy document is based on the following key principles:

- **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an investment committee; the Audit Committee; the Risk Management Committee of the Board of Directors; and the Board of Directors.

- **Procedures and policies** – The areas of responsibility and authority in the area of risk management assigned to Management, the Board of Directors, the Audit Committee, the Risk Management Committee, and specialized functions such as the Risk Manager are formalized in clear, accessible documentation, with the aim of ensuring uniform implementation in the organization.

- **Risk management processes** – Processes are in place for the routine identification of exposures, risk assessment, examination of controls, and risk minimization processes (including limits).

- **Tools and technologies** – A computerized system supporting risk assessment, risk management, reporting, monitoring, and planning.

- **Reporting and monitoring of risks** – Reports from each business line of the Company to the central Market and Liquidity Risk Management Unit in a structured process, in which exposures are reported to Management and to the Board of Directors; proper intra-organizational communication channels ensure timely reporting of issues that need to be addressed.

For the purpose of the control and management of market and liquidity risk, the Financial Management Unit in the Finance and Administration Division, under the authority of the Head of Market and Liquidity Risk, works to identify, measure, monitor, and report on market and liquidity risks, in practice, on a routine basis.

Structure and Organization of Market Risk Management Function

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 application 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.

The Chief Risk Officer assists the Board of Directors of the Company in approving and examining the market risk management strategy and the policy rules in this area, with reference to new products and processes at the Company.

The Chief Risk Officer assists Management in the control of the market risk strategy approved by the Board of Directors by examining compliance with policies and procedures for the identification, measurement, monitoring, and control of market risks. The Chief Risk Officer reports directly to the CEO of the Company and performs independent control of the exposure to market risks.

Nature and Volume of Risk Reporting and Measurement Systems

A risk management system (RMS) is in use as a strategic instrument for the management of market risks to which the Company is exposed as a result of gaps between the nature of assets and liabilities.

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

Exposure is monitored through reports on the effect of changes in interest rates. In the event that a deviation from the limits established is identified, the exposure is reduced by considering fixed-rate credit granting activity and considering the purchase of hedging transactions.

Foreign Currency Exposure Management

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

Operational Risk

Operational risk is managed by the 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 a policy for the management of operational risks, which includes the following objectives:

- 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.

Within its operational risk management policy, the Company has defined the supporting organizational structure in detail, including the duties and responsibilities of the Board of Directors, Management, the Chief Risk Officer, the Information Systems Division, the departmental risk controllers, and the various business units.

Once every three years, the Company performs a survey of operational risks, as follows:

- Full mapping of all operational processes in the Company.
- Classification of the processes into various groups, according to the classification methodology in Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy").
- Mapping of all of the controls relevant to each risk, including residual risk, and additional recommended controls, if necessary.
- Rating of risk levels in each process on a scale of the level of damage / expected frequency.
- Implementation of a multi-year action plan to reduce material risks and increase controls where necessary.

Each quarter, the Chief Risk Officer reports to Management and the Board of Directors on operational risks, as follows:

- Material loss events and consequent actions taken.
- New operational processes at a high level of risk and actions taken to increase controls and minimize risk.
- Approval of changes in operational risk policy.

All loss events at the Company are collected into a single database. All material events (The materiality threshold as at December 2014 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

- Adding controls for identification and prevention, according to risk level.
- Acquiring appropriate insurance, including property insurance, professional liability insurance, and insurance against fraud, embezzlement, and computer crimes.

Disclosure Regarding Positions in Shares in the Banking Portfolio

From time to time, the Company invests in areas synergetic with its operations and/or complementary to its core activity. These investments are of a strategic nature, and are not performed as financial holdings. According to the Company's policies, the Company does not perform securities trading.

Prohibition on Money Laundering and Financing of Terrorism

The legislation applicable to credit-card companies in Israel with regard to the prohibition on money laundering and financing of terrorism is the following:

- The Money Laundering Prohibition Law, 2000.
- The Prohibition on Money Laundering Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Financing of Terrorism), 2001.
- The Prohibition on the Financing of Terrorism Law, 2005.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, "Prevention of Money Laundering and Financing of Terrorism and Identification of Customers."
- The Trading with the Enemy Order.

The Company applies monitoring and controls with regard to private customers and merchants in general, and those defined as high risk in particular. The Company maintains routine monitoring and controls in several areas, in order to ensure that it possesses the required information and documents, in accordance with the directives. Any gaps are addressed and resolved.

Employees are required to stay current on this topic through an annual training program and an up-to-date computer-based tutorial. Individual training sessions are conducted as necessary at the various departments as well as at external entities that are in contact with customers and have a connection to the issue of the prohibition of money laundering and financing of terrorism.

The Company's procedures are updated and expanded from time to time in order to cover fully the relevant topics in accordance with the requirements. The Compliance Officer coordinates the Enforcement of Compliance Coordination Committee and the Compliance Committee.

Reports are regularly submitted to the Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the provisions of the Order) and unusual transactions. Monthly reports are submitted to the Bank of Israel, in accordance with requirements.

Critical Accounting Policies

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 Supervisor of Banks, the main points of which are described in Note 1 to the Financial Statements, "Significant Accounting Policies." 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 (Loyalty Program) for Credit-Card Holders

The provision made in the books represents a provision at a rate of approximately 85% of the balance of unutilized points as at the end of 2014.

The calculation of the provision for the loyalty program is based on the following assumption:

Price of points – based on the actual average cost per point as at the end of the year.

The provision in the financial statements in respect of unutilized points as at December 31, 2014 is NIS 64 million (December 31, 2013: NIS 56 million).

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).

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.

Discussion of Risk Factors

The main risk factors to which the Company is exposed have been mapped. This mapping and the assessment of the risks and of the effects thereof are subjective estimates by the Management of the Company.

Risk factor		Brief description	Degree of effect of risk factor
1.	Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Low
1.1.	Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Low
1.2.	Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and a routine process is in place for the control of compliance with these limits.	Low

Risk factor		Brief description	Degree of effect of risk factor
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's revenue and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in income.	Low
3.	Liquidity risk	Present or future risk to the Company's revenue and capital arising from an inability to supply its liquidity needs. In exceptional demand and supply situations in the financial markets, unplanned costs may be incurred in raising resources. The Company has taken action to diversify its liquidity sources.	Low
4.	Operational risk	Present or future risk to the Company's revenue and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and reputation risk. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's revenue and capital resulting from unexpected events such as legal claims, including class-action suits, compliance events, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Medium

	Risk factor	Brief description	Degree of effect of risk factor
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low
7.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, revenue, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Medium
8.	Strategic risk	The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decisions. Strategic risk is influenced by external and internal risk factors, including competition which is reflected in a loss of customers / reduction in the scope of their activity, the termination of an engagement with a bank under arrangement and related many and constant investments, in recruiting and retaining customers (credit card holders and merchants).	Medium
9.	Cessation of operation of an international credit-card organization	The cessation of operation of the American Express Organization could materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the member companies of the Company and/or of Bank Hapoalim could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

Information Security and Cyber-Attacks

On December 6, 2012, the Supervisor of Banks issued a final letter on "Implications of information security and cyber-attacks on the reporting to the public." According to the letter, banking corporations and credit-card companies are required to assess information security risks and take into account all relevant information, including past cyber-attacks and the severity and frequency of such incidents. This includes a requirement to assess the probability of cyber-attacks and the qualitative and quantitative volume of information security risks, including potential costs and other implications arising from disruptions of activity or from the illegal use of assets or of sensitive information. In addition, the adequacy of preventive actions taken to minimize information-security risks and cyber- attacks must be taken into consideration.

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.

As a result of cyber-attacks, banking corporations and credit-card corporations may bear significant costs, and may suffer negative consequences, including, among others:

1. Theft of financial assets, intellectual property, or other sensitive information of the banking corporation, of its customers, or of its business partners;

2. Disruption of the activity of the banking corporation or of its business partners;

3. Recovery costs;

4. Additional expenses in the area of protection and information security;

5. Loss of income as a result of unauthorized use of proprietary information, or due to failure to retain or attract customers following an attack;

6. Legal claims;

7. Damage to reputation.

The Company routinely works to identify and prevent events of information leakage involving sensitive business materials and customer details, and works to identify and prevent cyber attacks aimed at its infrastructures.

In the opinion of the Company, the extent of the effect of information security and cyber-attack risks is moderate.

Disclosure Regarding the Internal Auditor

The Company receives internal audit services from Bank Hapoalim B.M. (hereinafter: “**the Bank**”).

Information regarding the Internal Auditor – Mr. Jacob Orbach served as Chief Internal Auditor of the Company until July 30, 2014. As a result of his appointment to the officer in charge of the Business Division in Bank Hapoalim, Mr. Zeev Hayo was appointed Internal Auditor of the Company with effect from July 31, 2014. The appointment of the Internal Auditor was approved in the Board of Directors of the Company on July 31, 2014, after a recommendation of the Audit Committee dated July 31, 2014.

Mr. Zeev Hayo has worked in the Bank Hapoalim Group since January 1990, and is employed on a full-time basis. He holds a B.A. degree in Accounting and Economics from Tel Aviv University, is a certified public accountant, and has experience in the areas of banking and auditing. Mr. Orbach 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, 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), 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."

Superior officer of the Internal Auditor – The Chief Internal Auditor reports within the organization to the Chairman 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 2014 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 ChairmanChairman 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 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 – 56 audit days were invested directly at the Company in 2014. In addition, activities outsourced by the Company to its fellow-subsidiary, Isracard Ltd., are audited within the internal audit at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

Performing the audit – Internal Audit at the Company operates under 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 in 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.

Internal Auditor's report – Internal Audit reports, including periodic reports, are submitted in writing. Audit reports are submitted to the Chairman of the Board of Directors, the Chairman 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 2013 was submitted to the Company in January 2014. A summary of audit activities for 2014 is expected to be submitted to the Audit Committee during the first quarter of 2015.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Company is the organ charged with overarching control 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 over financial reporting are also presented to the Audit Committee and to the Board of Directors.

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

The Board of Directors

In 2014, the Board of Directors of the Company continued to set forth 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 approved the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee); addressed the organizational structure of the Company; established 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 plenum and committees – The Audit Committee and the Credit Committee held detailed discussions of the various aspects of the Company's activity.

17 meetings of the plenum of the Board of Directors and 13 meetings of the committees were held in 2014.

Directors with Accounting and Financial Expertise

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

Note that at the reporting date, the number of directors with accounting and financial expertise, according to their education, qualifications, and experience, is five. The number of directors on the Audit Committee with accounting and financial expertise, according to their education, skills, and experience, is two. (As of December 31, 2014, there were six directors and three directors, respectively.)

Members of the Board

Dan Alexander Koller	Serves as Chairman of the Board of Directors of the Company and as Chairman of the Audit Committee of the Board of Directors of the Company since August 10, 2014. In addition, serves and 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 Chairman of the board of directors in the following companies: Isracard, Europay, Poalim Capital Markets and Investments – Holdings Ltd., Poalim Capital Markets – Investment House Ltd., Poalim Capital Markets Ltd., Poalim Registration Co. 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 Chairman of the credit committee of the board of directors of Poalim Express. 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., Btzur 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 in Tovna Ltd., Poalim Venture Services Israel Ltd., Continental Investment Company Ltd., Sapanut Investments Ltd., Sapanut Poalim Management Ltd., Kadima 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 Chairman 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 in the corporation.

Avi Idelson	Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies. Director on the Board of Directors of the Company since January 31, 2010. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Chairman of the Audit Committee and member of the Credit Committee of the Board of Directors of the Company. External director pursuant to 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. Chairman 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; Chairman of the Audit Committee of the Board of Directors of Europay; member of the Balance Sheet Committee, the Audit Committee, and the Remuneration Committee of the Board of Directors of Mehadrin Ltd. Prior thereto, 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 Educational 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. Deputy CEO 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. Director in Poalim Registration Co. 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.

Nitzana Adawi	Member of the Board of Directors of the Company since October 31, 2011. Also a member of the following committees of the Board of Directors: the Audit Committee and the Credit Committee. 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. External director pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the board of directors of the following companies: Isracard and Europay. Member of the Audit Committee of the Board of Directors of Europay; member of the 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. Adawi, 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 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 Europay 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.

Shimon Gal	Served as Chairman of the Board of Directors of the Company and as Chairman of the Credit Committee of the Board of Directors of the Company from the beginning of January 2014 till July 3, 2014. Also served as Chairman of the Board of Directors of Isracard, Chairman of the Board of Directors of Europay, and as Chairman of the Credit Committee of the Board of Directors of Isracard. Also served as Assistant to the CEO and Head of Corporate Banking in Bank Hapoalim B.M. from November 2009 till July 6, 2014, and as Chairman of the board of management of Poalim Trust Services Ltd. and Diur B.P. Ltd. from August 2013 till July 3, 2014,. but no longer serves in them. B.A. in Economics and Statistics, Hebrew University in Jerusalem. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. S. Gal, he is not a family member of another interested party in the corporation.
Shmuel Lachman	Served as external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the Board of Directors of the Company from May 21, 2009 till January 5, 2015. Served as member of the Audit Committee of the Board of Directors of the Company, but no longer serves in it today. CEO of Shiral 10 Ltd. In the last five years or during part of that period, served on the board of directors of the following companies: Isracard, Europay, the Association for the Wellbeing of Israel's Soldiers Ltd., Computer Direct Group Ltd., IDB Holdings Ltd. Also served as chairman of the Computer Committee and member of the Audit Committee, Risk Management Committee and the Remuneration Committee of the Board of Directors of Isracard, and member of the Audit Committee of the Board of Directors of Europay. Also served as Member of the Governing Board of Shenkar College, but no longer serves in that positions. M.Sc., Industry and Management, Technion; B.Sc., Industry and Management, Technion. Courses abroad, mainly at the IBM training center in Brussels, on management, marketing, balance-sheet analysis, and strategic management of companies. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. S. Lachman, he is not a family member of another interested party of the corporation.

Ran Oz	Served as member of the Board of Directors of the Company from June 25, 2009 until December 31, 2014. In the last five years or during part of that period, was a Partner at Viola Credit Fund. Also served as a member of the Board of Management of Bank Hapoalim B.M., Assistant to the CEO of the Bank, Head of the Financial Division (Chief Financial Officer). Also served as Chairman of the board of directors of the following companies: Diur B.P. Ltd., Poalim Trust Services Ltd.; as deputy Chairman of the board of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd. Served as member of the board of directors of the following companies: Sure-Ha International Ltd., Isracard Ltd., Europay (Eurocard) Ltd., and as Chairman of the Risk Management Committee of the Board of Directors of Isracard and member of the Remuneration Committee of the Board of Directors of Isracard, but no longer serves in them. M.A. in Economics and Business Administration, Hebrew University in Jerusalem; B.A. in Accounting and Economics, Hebrew University in Jerusalem. Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. R. Oz, he is not a family member of another interested party in the corporation.
Ronny Shaten	Served as Chairman and member of the boards of directors of various companies. Served as external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the Board of Directors of the Company from September 28, 2005 till September 27, 2014. In the last five years or during part of that period, served as Chairman of the Audit Committee of the Board of Directors, as Director on the Board of Directors of Ginegar Plastic Products Ltd.; Chairman of the Board of Directors of Super Plast Ltd. and Chairman of the Board of Directors of A.M.S. Electronics Ltd., and director on the boards of directors of the following companies: Isracard, Europay, UTI Israel Logistics Ltd.; Exel Multi-Purpose Logistics Ltd.; Overseas Commerce Ltd.; Exel MPL A.V.B.A. Ltd.; (YZ) Queenco Ltd., A.P. Logistics Ltd., but no longer serves in them. Studied Business Administration To the best of the knowledge of the Company and of Mr. R. Shaten, he is not a family member of another interested party in the corporation.

Senior Members of Management

Ronen Stein	CEO of the Company since February 1, 2015 CEO of the following credit card companies: Isracard and Europay. Chairman of the board of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Director on the board of directors of Global Factoring Ltd. In the last 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. LL.B. Interdisciplinary College, Herzlia. B.A. Economics – Hebrew University in Jerusalem. Holder of investment consulting license – Israel Securities Authority Lawyer 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. Deputy CEO 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 in the corporation.
Amir Kushilevitz-Ilan	Member of the Management of the Company since February 2011. Deputy CEO 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. Deputy CEO Commerce. Director on the board of directors of Global Factoring Ltd. From 1992, 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 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. Deputy CEO 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 in the corporation.
Ronen Zaretsky	Member of the Management of the Company from December 18, 2005. Deputy CEO 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. Deputy CEO Credit and Finance. 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. Deputy CEO 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 till January 31, 2015. Served as CEO of the following credit-card companies: Isracard and Europay till January 31, 2015. Also served Chairman 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.

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 over 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 over 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 over 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 performance, accuracyand completeness. These control objectives meet the criteria established in the COSO integrated framework of internal controls (1992).

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, 2014, there was no change in the Company's internal control over 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.

Wages and Benefits of Officers

As part of the Company's participation in joint costs of Isracard and the Company, the Company also bears the relative cost of the wages of officers. This cost is charged to the Company as a general amount, and cannot be attributed specifically to individual officers. The payment of wages to the officers is performed by Isracard, which operates the activity of the Company, as noted.

Remuneration of Auditors[(1)(2)]

	2014	2013
	In NIS thousands	
For audit activities[(3)]:		
Joint auditors	530	420
For tax services[(4)]:		
Joint auditors	3	29
For other services[(5)]:		
Joint auditors	14	-
Total	**17**	**29**
Total remuneration of auditors	**547**	**449**

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

(2) Includes remuneration paid and remuneration accrued.

(3) Audits of annual financial statements and reviews of interim reports; also includes an audit of the internal control over financial reporting (SOX 404).

(4) Includes tax adjustment reports and tax consulting.

(5) Including mainly routine processes.

Dan Koller
Chairman of the Board of Directors

Ronen Stein
Chief Executive Officer

Tel Aviv, February 23, 2015

Poalim Express Ltd.

Management's Review

For the Year Ended December 31, 2014

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Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

NIS millions

	December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Assets					
Cash	15	12	13	25	205
Debtors in respect of credit-card activity	1,962	1,896	1,744	1,594	1,492
Allowance for credit losses	(11)	(10)	(10)	(7)	(8)
Debtors in respect of credit-card activity, net	1,951	1,886	1,734	1,587	1,484
Computers and equipment	2	2	2	2	1
Other assets	449	438	400	337	88
Total assets	**2,417**	**2,338**	**2,149**	**1,951**	**1,778**
Liabilities					
Credit from banking corporations	2	3	4	1	2
Creditors in respect of credit-card activity	2,108	2,017	1,868	1,708	1,566
Subordinated notes	-	56	56	58	56
Other liabilities	15	15	17	18	12
Total liabilities	**2,125**	**2,091**	**1,945**	**1,785**	**1,636**
Capital	292	247	204	166	142
Total liabilities and capital	**2,417**	**2,338**	**2,149**	**1,951**	**1,778**

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

NIS millions

	For the year ended December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Income					
From credit-card transactions	332	317	292	256	223
Net interest income	3	5	7	7	2
Other income	3	1	1	*-	1
Total income	**338**	**323**	**300**	**263**	**226**
Expenses					
Provision for credit losses	1	1	6	4	1
Operating expenses	97	94	91	82	72
Sales and marketing expenses	69	62	54	48	50
General and administrative expenses	28	27	25	22	19
Payments to banks	82	82	73	63	54
Total expenses	**277**	**266**	**249**	**219**	**196**
Profit before taxes	61	57	51	44	30
Provision for taxes on profit	16	14	13	9	8
Net profit	**45**	**43**	**38**	**35**	**22**
Basic and diluted net earnings per common share (in NIS)	**324**	**309**	**275**	**249**	**168**

* Amount less than NIS 0.5 million.

Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses

Addendum 3

Reported amounts

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2014			For the year ended December 31, 2013			For the year ended December 31, 2012		
	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 and deposits with banks	-	2	-	-	4	-	-	5	-
Debtors in respect of credit-card activity(3)	25	1	4.00	19	2	10.53	30	2	6.67
Other assets	472	1	0.21	419	1	0.24	365	2	0.55
Total interest-bearing assets	**497**	**4**	**0.8**	**438**	**7**	**1.60**	**395**	**9**	**2.28**
Non-interest-bearing debtors in respect of credit cards	1,856			1,778			1,647		
Other non-interest-bearing assets(4)	26			30			28		
Total assets	**2,379**			**2,246**			**2,070**		

(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.

Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2014			For the year ended December 31, 2013			For the year ended December 31, 2012		
	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	4	(-*)	-	4	-	-	5	(*-)	-
Subordinated notes	56	(1)	(1.79)	57	(2)	(3.51)	57	(2)	(3.51)
Other liabilities	1	-	-	*-	(*-)	-	*-	(*-)	-
Total interest-bearing liabilities	**61**	**(1)**	**(1.64)**	**61**	**(2)**	**(3.28)**	**62**	**(2)**	**(3.23)**
Non-interest-bearing creditors in respect of credit cards	2,032			1,945			1,807		
Other non-interest-bearing liabilities(3)	17			17			17		
Total liabilities	**2,110**			**2,023**			**1,886**		
Total capital means	**269**			**223**			**184**		
Total liabilities and capital means	**2,379**			**2,246**			**2,070**		
Interest spread			(0.84)			(1.68)			(0.95)
Net return on interest-bearing assets in Israel	497	3	0.60	438	5	1.14	395	7	1.77

* 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.

Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (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, 2014			For the year ended December 31, 2013			For the year ended December 31, 2012		
	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	497	4	0.80	438	7	1.60	395	9	2.28
Total interest-bearing liabilities	58	(1)	(1.72)	57	(2)	(3.51)	58	(2)	(3.45)
Interest spread			(0.92			(1.91)			(1.17)
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	-	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	3	(-*)	-	4	(*-)	-	4	(*-)	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	497	4	0.80	438	7	1.60	395	9	2.28
Total interest-bearing liabilities	61	(1)	(1.64)	61	(2)	(3.28)	62	(2)	(3.23)
Interest spread			(0.84)			(1.68)			(0.95)

* 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.

Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Analysis of Changes in Interest Income and Interest Expenses

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)**

Year ended December 31, 2013 versus year ended December 31, 2012

	Increase (decrease) due to change (1)		
	Quantity	Price	Net change
		In NIS millions	
Interest-bearing assets (2)			
Cash	-	(1)	(1)
Debtors in respect of credit-card activity	(1)	1	-
Other interest-bearing assets	*-	(1)	(1)
Total interest income	**(1)**	**(1)**	**(2)**
Interest-bearing liabilities (2)			
Credit from banking corporations	-	-	-
Subordinated notes	-	-	-
Other interest-bearing liabilities	-	-	-
Total interest expenses	**-**	**-**	**-**

* 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.

Exposure of the Company to Changes in Interest Rates as at December 31, 2014

Addendum 4

Reported amounts

In NIS millions

	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 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	1,525	378	352	61	-
Total fair value	**1,525**	**378**	**352**	**61**	**-**
Financial liabilities:					
Financial liabilities	1,127	420	379	98	17
Total fair value	**1,127**	**420**	**379**	**98**	**17**
Financial instruments, net					
Exposure to changes in interest rates in the segment	398	(42)	(27)	(37)	(17)
Cumulative exposure in the segment	398	356	329	292	275
Linked Israeli currency					
Financial assets:					
Financial assets	2	3	4	-*	-
Total fair value	**2**	**3**	**4**	**-***	**-**
Financial liabilities:					
Financial liabilities	2	3	4	-*	-
Total fair value	**2**	**3**	**4**	**-***	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	*	-
Cumulative exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)

* Amount less than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-*	2,316	1.29%	0.14
	-	**-***	**2,316**	**1.29%**	**0.14**
	-	2	2,043	1.50%	0.23
	-	**2**	**2,043**	**1.50%**	**0.23**
		(2)	273		
	275	273			
	-	-	9	1.21%	0.26
	-	**-**	**9**	**1.21%**	**0.26**
	-	-	9	1.21%	0.25
	-	**-**	**9**	**1.21%**	**0.25**
	-	-	(-*)		
	(-*)	(-*)			

Exposure of the Company to Changes in Interest Rates as at December 31, 2014 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	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 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	78	(7)	-*	-*	-
Total fair value	**78**	**(7)**	**-***	**-***	**-**
Financial liabilities:					
Financial liabilities	53	3	1	-*	-
Total fair value	**53**	**3**	**1**	**-***	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	25	(10)	(1)	-*	-
Cumulative exposure in the segment	**25**	**15**	**14**	**14**	**14**
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,605	374	356	61	-
Total fair value	**1,605**	**374**	**356**	**61**	**-**
Financial liabilities:					
Financial liabilities	1,182	426	384	98	17
Total fair value	**1,182**	**426**	**384**	**98**	**17**
Financial instruments, net					
Exposure to changes in interest rates in the segment	423	(52)	(28)	(37)	(17)
Cumulative exposure in the segment	423	371	343	306	289

* Amount less than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return[(2)]	Effective average duration[(3)]
				In percent	In years
	-	-	71	0.14%	0.03
	-	**-**	**71**	**0.14%**	**0.03**
	2	-	59	1.82%	0.24
	2	**-**	**59**	**1.82%**	**0.24**
	(2)	-	12		
	12	12			
	-	-*	2,396	1.28%	0.14
	-	**-***	**2,396**	**1.28%**	**0.14**
	2	2	2,111	1.51%	0.23
	2	**2**	**2,111**	**1.51%**	**0.23**
	(2)	(2)	285		
	287	285			

Exposure of the Company to Changes in Interest Rates as at December 31, 2013

Addendum 4 (cont.)

Reported amounts

In NIS millions

	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 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	1,480	363	340	62	-
Total fair value	**1,480**	**363**	**340**	**62**	**-**
Financial liabilities:					
Financial liabilities	1,126	402	366	92	13
Total fair value	**1,126**	**402**	**366**	**92**	**13**
Financial instruments, net					
Exposure to changes in interest rates in the segment	354	(39)	(26)	(30)	(13)
Cumulative exposure in the segment	**354**	**315**	**289**	**259**	**246**
Linked Israeli currency					
Financial assets:					
Financial assets	2	3	4	-*	-
Total fair value	**2**	**3**	**4**	**-***	**-**
Financial liabilities:					
Financial liabilities	2	3	4	-*	-
Total fair value	**2**	**3**	**4**	**-***	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	-*	-
Cumulative exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)

* Amount less than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	-	2,245	2.00%	0.14
	-	**-**	**2,245**	**2.00%**	**0.14**
	-	8	2,007	2.19%	0.22
	-	**8**	**2,007**	**2.19%**	**0.22**
	-	(8)	238		
	246	238			
	-	-	9	(0.61%)	0.27
	-	**-**	**9**	**(0.61%)**	**0.27**
	-	-	9	(0.61%)	0.26
	-	**-**	**-**	**(0.61%)**	**0.26**
	-	-	(-*)		
	(-*)	(-*)			

Exposure of the Company to Changes in Interest Rates as at December 31, 2013 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	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 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	69	(7)	-*	-*	-
Total fair value	**69**	**(7)**	**-***	**-***	**-**
Financial liabilities:					
Financial liabilities	53	2	-*	-*	-
Total fair value	**53**	**2**	**-***	**-***	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	16	(9)	-*	-*	-
Cumulative exposure in the segment	16	7	7	7	7
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,551	359	344	62	-
Total fair value	**1,551**	**359**	**344**	**62**	**-**
Financial liabilities:					
Financial liabilities	1,181	407	370	92	13
Total fair value	**1,181**	**407**	**370**	**92**	**13**
Financial instruments, net					
Exposure to changes in interest rates in the segment	370	(48)	(26)	(30)	(13)
Cumulative exposure in the segment	370	322	296	266	253

* Amount less than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	-	62	0.16%	0.03
	-	**-**	**62**	**0.16%**	**0.03**
	-	2	57	0.13%	0.02
	-	**2**	**57**	**0.13%**	**0.02**
	-	(2)	5		
	7	5			
	-	-	2,316	1.97%	0.14
	-	**-**	**2,316**	**1.97%**	**0.14**
	-	10	2,073	2.16%	0.21
	-	**10**	**2,073**	**2.16%**	**0.21**
		(10)	243		
	253	243			

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

Addendum 5

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**

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

Addendum 5 (cont.)

Reported amounts

NIS millions

	2013

	Q4	Q3	Q2	Q1
Assets				
Cash	12	30	24	20
Debtors in respect of credit-card activity	1,896	1,815	1,793	1,827
Allowance for credit losses	(10)	(9)	(10)	(10)
Debtors in respect of credit-card activity, net	1,886	1,806	1,783	1,817
Computers and equipment	2	2	2	2
Other assets	438	434	422	393
Total assets	**2,338**	**2,272**	**2,231**	**2,232**
Liabilities				
Credit from banking corporations	3	8	3	2
Creditors in respect of credit-card activity	2,017	1,957	1,931	1,946
Subordinated notes	56	57	57	57
Other liabilities	15	15	17	14
Total liabilities	2,091	2,037	2,008	2,019
Capital	247	235	223	213
Total liabilities and capital	**2,338**	**2,272**	**2,231**	**2,232**

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

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 (income)				
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 earnings per common share (in NIS)	**68**	**93**	**94**	**69**

* Amount less than NIS 0.5 million.

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

Addendum 6 (cont.)

Reported amounts

NIS millions

	2013			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	85	82	76	74
Net interest income	1	1	2	1
Other income	1	*-	*-	*-
Total income	**87**	**83**	**78**	**75**
Expenses (income)				
Provision for credit losses	1	(1)	1	*-
Operating expenses	22	24	24	24
Sales and marketing expenses	18	16	13	15
General and administrative expenses	8	7	6	6
Payments to banks	22	22	20	18
Total expenses	**71**	**68**	**64**	**63**
Profit before taxes	16	15	14	12
Provision for taxes on profit	4	3	4	3
Net profit	**12**	**12**	**10**	**9**
Basic and diluted net earnings per common share (in NIS)	**86**	**85**	**72**	**66**

* Amount less than NIS 0.5 million.

Certification

I, Ronen Stein, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2014 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no false representation of a material fact, and does not lack a representation of a material fact that is necessary so that the representations 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.

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, "Board of Directors' Report."

Ronen Stein

Chief Executive Officer

Tel Aviv, February 23, 2015.

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2014 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no false representation of a material fact, and does not lack a representation of a material fact that is necessary so that the representations 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.

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, "Board of Directors' Report."

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 23, 2015.

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 "Board of Directors' Report"). 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, 2014, 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, 2014, 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 105. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control over financial reporting as at December 31, 2014.

Dan Koller	**Ronen Stein**	**Sigal Barmack**
Chairman of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 23, 2015.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2014

AMERICAN EXPRESS

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Somekh Chaikin

ZIV HAFT

Auditors' Report to the Shareholders of Poalim Express Ltd. pursuant 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, 2014, 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 concerning 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 over 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, 2014, 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, 2014 and 2013, 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, 2014. Our report dated February 23, 2015, expressed an unqualified opinion on the aforesaid financial statements whilst drawing attention to Note 14.B.2. on additional regulation and Note 14.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 23, 2015

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

ZIV HAFT
IS A MEMBER OF BDO

Somekh Chaikin

ZIV HAFT

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, 2014 and 2013, and the statements of profit and loss, 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 respects, the financial position of the Company as at December 31, 2014 and 2013, 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, 2014, 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 Note 14.B.2. on additional regulation and Note 14.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, 2014, 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 23, 2015, 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 23, 2015

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

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IS A MEMBER OF BDO

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2014	2013
Assets			
Cash		15	12
Debtors in respect of credit-card activity	2, 3	1,962	1,896
Allowance for credit losses	2A	(11)	(10)
Debtors in respect of credit-card activity, net		**1,951**	**1,886**
Computers and equipment	4	2	2
Other assets	5	449	438
Total assets		**2,417**	**2,338**
Liabilities			
Credit from banking corporations	6	2	3
Creditors in respect of credit-card activity	7	2,108	2,017
Subordinated notes	8	-	56
Other liabilities	9, 14	15	15
Total liabilities		**2,125**	**2,091**
Contingent liabilities and special agreements	14		
Equity	10	292	247
Total liabilities and capital		**2,417**	**2,338**

Dan Koller	**Ronen Stein**	**Sigal Barmack**
Chairman of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 23, 2015

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2014	**2013**	**2012**
Income				
From credit-card transactions	17	332	317	292
Net interest income	18	3	5	7
Other income		3	1	1
Total income		**338**	**323**	**300**
Expenses				
Provision for credit losses	2A	1	1	6
Operating expenses	19	97	94	91
Sales and marketing expenses	20	69	62	54
General and administrative expenses	21	28	27	25
Payments to banks	14F	82	82	73
Total expenses		**277**	**266**	**249**
Profit before taxes		**61**	**57**	**51**
Provision for taxes on profit	22	16	14	13
Net profit		**45**	**43**	**38**
Basic and diluted net earnings per common share (in NIS)		**324**	**309**	**275**
Number of common shares used in calculation		139,326	139,326	139,326

* 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

	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Retained earnings	Total capital
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**

	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	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**

	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Retained earnings	Total capital
Balance as at Dec. 31, 2011	*-	35	*-	35	131	166
Benefits received from controlling shareholder	-	-	*-	*-	-	*-
Net profit for the year	-	-	-	-	38	38
Balance as at Dec. 31, 2012	***-**	**35**	***-**	**35**	**169**	**204**

* Amount less than NIS 0.5 million.

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		
	2014	2013	2012
Cash flows from operating activity			
Annual net profit	45	43	38
Adjustments:			
Depreciation of computers and equipment	1	1	1
Provisions for credit losses	1	1	6
Deferred taxes, net	-*	(*-)	(2)
Revaluation of subordinated notes	-	-	(2)
Benefit from a transaction with a controlling party	-*	*-	*-
Adjustments for exchange rate differences	(1)	1	(1)
Changes in current assets			
Change in credit to cardholders and merchants, net	(1)	2	(5)
Change in other debtors in respect of credit-card activity, net	(66)	(155)	(147)
Change in other assets, net	(11)	(38)	(61)
Changes in current liabilities			
Change in short-term credit from banking corporations, net	(1)	(1)	3
Change in creditors in respect of credit-card activity, net	91	149	160
Change in other liabilities	1	(2)	(2)
Net cash from operating activity	59	1	(12)

* 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		
	2014	**2013**	**2012**
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 (decrease) in cash	2	*-	(13)
Balance of cash at beginning of year	12	13	25
Effect of changes in exchange rates on cash balances	1	(1)	1
Balance of cash at end of year	15	12	13
Interest and taxes paid and/or received			
Interest received	4	6	9
Interest paid	1	2	4
Taxes on income paid	16	15	17
Taxes on income received	-	*-	1

* Amount less than NIS 0.5 million.

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

Note 1 – Significant Accounting Policies

A. 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 14E below).

The financial statements were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks.

The annual financial statements were approved for publication by the Board of Directors of the Company on February 23, 2015.

B. 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, 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 IAS 24, Related Party Disclosures, excluding interested parties.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

4. Interested par**ties – As defined Section 1 of the definition of "interested party", "in a corporation"**in the Securities Law, 1968

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.

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with the Public Reporting Directives and guidelines of the Supervisor of Banks. In preparing the financial statements, the Company implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

♦ **On matters related to the core business of banking** – Accounting treatment in accordance with the directives and guidelines of the Supervisor of Banks, and based on GAAP for US banks as adopted in the Public Reporting Directives of the Supervisor of Banks. Matters related to the core business of banking have been defined by the Supervisor of Banks as financial instruments; recognition of revenues, including customer loyalty programs; allowance for credit losses; contingent liabilities and provisions; presentation of financial statements; and segmental reporting.

Note 1 – Significant Accounting Policies (cont.)

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

- **On matters not related to the core business of banking** – Accounting treatment based on Israeli GAAP, and on certain IFRS and the related IFRIC interpretations. Pursuant to the directives of the Supervisor of Banks, international standards are implemented according to the following principles:
  - In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Company treats the issue according to GAAP for US banks specifically applicable to these matters;
  - In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Company acts according to specific implementation guidelines established by the Supervisor;
  - Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Company acts in accordance with the IFRS;
  - Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Company acts in accordance with the Public Reporting Directives and with Israeli GAAP;
  - Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives shall replace the original reference.

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.

3. Measurement Base

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

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss;
- 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.

Note 1 – Significant Accounting Policies (cont.)

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

♦ Investments in joint activity and in associates.

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 Supervisor of Banks 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.

D. 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 2014:

1. Directive concerning the format of the statement of profit and loss of a banking corporation and the adoption of GAAP for US Banks on interest income measurement

2. Updating disclosure of the credit quality of debts and credit loss allowances in credit card companies.

3. Circular on the subject of collective allowance for individual persons.

Note 1 – Significant Accounting Policies (cont.)

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

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. **Directive concerning the format of the statement of profit and loss of a banking corporation and the adoption of GAAP for US Banks on interest income measurement**

   A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of credit commitment fees and costs, including credit-card transactions. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not constitute troubled debt restructuring, and the treatment of early repayment of debts.

   The Company implemented the directive pertaining to the format of the statement of profit and loss of a banking corporation and the adoption of GAAP for US Banks on interest income measurement from January 1, 2014, and thereafter. This directive did not have a material effect on the financial statements.

2. Updating disclosure of the credit quality of debts and credit loss allowances in credit card companies.

   On February 10, 2014 a circular was issued on "Updating disclosure of the credit quality of debts and credit loss allowances in credit card companies". Implementation of the circular is from the first quarter of 2014.

   The Company implemented the circular on the subject of updating the disclosure of the credit quality of debts and credit loss allowances in credit card companies from January 1, 2014 on a retroactive basis. Implementation of the circular had no material effect on the financial statements except for a change in the disclosure. See also Note 3.A. below.

3. Circular on the subject of collective allowance for individual persons.

   Pursuant to the circular of the Banking Supervision Department dated January 19, 2015, the Company applies the instructions of the Banking Supervision Department regarding calculation of the collective allowance for non-residential credit losses particularly concerning credit to individual persons.

Note 1 – Significant Accounting Policies (cont.)

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

E. 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 1 – Significant Accounting Policies (cont.)

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

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

	December 31		
	2014	**2013**	**2012**
Consumer price index (in points)	102.1	102.3	100.5
United States dollar exchange rate (in NIS per 1 USD)	3.889	3.471	3.733

	Percent change in the year ended December 31		
	2014	**2013**	**2012**
Consumer price index	(0.2)	1.8	1.6
USD exchange rate	12.0	(7.0)	(2.3)

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 1 – Significant Accounting Policies (cont.)

E. 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 Supervisor of Banks 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, 2012, 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. In addition, as of the annual financial statements at December 31, 2014, the Company implements a circular from January 19, 2015 on the collective allowance for individual persons.

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 by 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-performng 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 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (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 temporary order issued by the Supervisor of Banks, 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 on actual rates of net charge-offs recorded. The calculation differentiates between problematic and non-problematic credit, and between individual persons and merchants, international organizations, and credit-card companies.

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-

Note 1 – Significant Accounting Policies (cont.)

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

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.

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.

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

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

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.

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.

Directives of the Supervisor of Banks Concerning the Update of Disclosures of the Credit Quality of Debts and Credit Loss Allowances, for the Adoption of ASU 2010-20

The Company implements the directives in the circular of the Supervisor of Banks concerning an update of the disclosure of credit quality of debts and the allowance for credit losses, to adopt 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 1 – Significant Accounting Policies (cont.)

E. 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 1 – Significant Accounting Policies (cont.)

E. 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.

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

Note 1 – Significant Accounting Policies (cont.)

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

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.

Software Costs

Software acquired by the Company is recognized as an asset and measured at cost, with the deduction of amortisation 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.

Note 1 – Significant Accounting Policies (cont.)

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

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.

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

Note 1 – Significant Accounting Policies (cont.)

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

when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss.

Cancellation of Loss from Impairment

A loss from the impairment of goodwill is not canceled. With regard to other assets in respect of which losses from impairment have been recognized in previous periods, an examination is conducted at each reporting date in order to test for signs that these losses have decreased or no longer exist. Losses from impairment are canceled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

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.

9. Provision for Gift Offers for Credit-Card Holders

The financial statements include a provision for the loyalty program for cardholders. The provision made in the books represents a provision at a rate of approximately 85% of the balance of unutilized points as at the end of 2014. The calculation of the provision for the loyalty program assumes that the price of a point is based on the actual average cost per point as at the end of the year.

Note 1 – Significant Accounting Policies (cont.)

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

10. Employee Rights

The Company's liabilities for post-retirement benefits and/or other long-term benefits granted according to law and/or agreements and/or customary practice at the Company are calculated in accordance with the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, these calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The mortality rate is based on current directives issued in this area by the Supervisor of the Capital Market, Insurance, and Savings, including the draft position paper of the Supervisor of the Capital Market, Insurance, and Savings in the Ministry of Finance published on the subject. The rate of the future rise in salaries is estimated by Management.

Short-term employee benefits, such as labor wages, vacations, and bonuses, are measured on an undiscounted basis, and the expense in respect thereof for the period is allocated when the relevant service is provided.

In addition, pursuant to the directives of the Supervisor of Banks, a banking corporation 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. Following the implementation of the Supervisor's instructions, the liability in respect of severance pay for this group of employees is presented in the financial statements as an amount calculated on an actuarial basis, taking into consideration the additional cost expected to be incurred by the Company due to the aforesaid benefits.

On April 9, 2014, the Banking Supervision Department published a circular regarding the adoption of US GAAP on employee benefits. For further details, see Section F.1 below.

11. Share-Based Payment Transactions

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

Note 1 – Significant Accounting Policies (cont.)

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

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 at the date of the grant of a share-based payment for services is allocated as sales and marketing expenses, in parallel to the increase in equity, over the period of the services agreement.

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 under "salaries and related expenses" in profit and loss.

Transactions in which the Parent Company grants employees of the Company interests in its equity instruments are accounted for by the Company as a share-based payment settled in equity instruments. An expense is recognized in the financial statements of the Company, in the statement of profit and loss, over the period of the employees' entitlement to the equity instruments, against a corresponding amount recorded in equity in respect of the equity inflow received from the Parent Company.

On April 9, 2014, the Banking Supervision Department published a circular regarding the adoption of US GAAP on employee benefits. For further details, see Section F.1 below.

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 Supervisor of Banks, 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 Supervisor of Banks has determined that the Company is required

Note 1 – Significant Accounting Policies (cont.)

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

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 or other comprehensive income.

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.

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 over 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 are recognized in the books 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.

Note 1 – Significant Accounting Policies (cont.)

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

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.

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 and deposits in banks for an original period of up to three months.

Note 1 – Significant Accounting Policies (cont.)

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

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 Supervisor of Banks.

18. Related Party Disclosures

IAS 24, Related Party Disclosures, establishes the disclosure required of entities with regard to their relationships with related parties and with regard to unsettled transactions and balances with related parties. In addition, disclosure is required for compensation to key management personnel. Key executives are defined as persons with the authority and responsibility to plan the activity of the entity, or to directly or indirectly guide and control the entity, including any director (active or inactive) of the entity.

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 a 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.

Note 1 – Significant Accounting Policies (cont.)

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

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.

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

1. Adoption of US GAAP on Employee Benefits

On April 9, 2014, the Banking Supervision Department issued a circular on the adoption of the US GAAP on employee benefits. The circular updates the requirements for recognition, measurement and disclosure related to employee benefits in the Public Reporting Directives in accordance with generally accepted accounting principles in US banks. The circular provides that the amendments to the Public Reporting Directives will apply from January 1, 2015 when on initial implementation a banking corporation or credit card company will retroactively correct comparative figures for periods beginning January 1, 2013 and thereafter to comply with the rules as stated. On July 10, 2014, a draft FAQ was published on the subject, which includes, among others, examples of the manner of processing of benefits common to the banking system in accordance with US GAAP.

In addition, on January 11, 2015, a circular was issued regarding employee benefits - the discount rate, including a format for disclosure and transition on initial application. The circular states that the Bank of Israel came to the conclusion that in Israel there is no deep market for high-quality corporate bonds. Accordingly, the employee benefits discount rate will be calculated on the basis of the return on government bonds in Israel plus the average margin on corporate bonds rated AA (International) or more at the reporting date. For practical considerations, it was decided that the margin is determined by the difference between the yields to maturity, by repayment periods, of corporate bonds rated AA or above in the United States, and yields to maturity, for the same term to maturity, of the bonds of the US government, all at the reporting date.

The circular updates the disclosure requirements on employee benefits and 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 subject.

The Company estimates the expected impact on the shareholders of the Company as of December 31, 2014 due to the adoption of US GAAP on employee benefits is not material.

2. Reporting under US GAAP relating to the distinction between liabilities and equity

On October 6, 2014, the Supervisor of Banks issued a directive concerning reporting under US GAAP relating to the distinction between liabilities and equity, following Banking Supervision Department policy, to adopt on substantive issues the financial reporting system applicable to US banks. The effective date of the directive was set at January 1, 2015. The implementation of the Directive is not expected to affect the Company.

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

3. 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.

Banks and credit card companies are required to implement the amendments to the Public Reporting Directives according to the circular from January 1, 2017 in accordance with the transitional provisions in the circular. On initial implementation, 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 Company has yet to examine the impact of the standard on its financial statements and has not yet chosen an alternative to implement the transitional provisions.

Note 2 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	2014			
	Average annual interest rate		Consolidated	
			December 31	
	On daily balance	On transactions in the last month	2014	2013 (4)
	%	%	In NIS millions	
Credit risk not under bank guarantee				
Individuals (1)			**359**	**340**
Of which: debtors in respect of credit cards (2)			359	340
Of which: credit (2)			-	-
Commercial			**108**	**67**
Of which: debtors in respect of credit cards (2)			77	37
Of which: credit (2) (3)	2.8	3.3	31	30
Total credit risk not under bank guarantee			**467**	**407**
Credit risk under bank and other guarantee				
Debtors in respect of credit cards			1,471	1,464
International credit-card organization			20	22
Income receivable			3	2
Others			1	1
Total debtors in respect of credit-card activity			**1,962**	**1,896**

(1) Individuals as defined in the Public Reporting Directives on page 640-5 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 31 million (December 31, 2013 – NIS 30 million). This amount includes advance payments to merchants in the amount of NIS 30 million (December 31, 2013 – NIS 28 million).

(4) As of the financial statements for March 31, 2014, the Company implemented the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

Reported amounts

In NIS millions

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

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
	Private		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 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013 (5)					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee [2]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]		
Balance of allowance for credit losses as at 31.12.2012	11	-	1	1	1	14
Expenses (income) in respect of credit losses	1	-	-*	(-*)	-*	1
Charge-offs	(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.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

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

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

	For the year ended December 31, 2012 (5)					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee [(2)]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[(3)]		
Balance of allowance for credit losses as at 31.12.2011	7	-	1	1	1	10
Expenses in respect of credit losses	4	-	1	1	(-*)	6
Charge-offs	(3)	-	(1)	(1)	-	(5)
Recovery of debts charged off in previous years	-	-	-*	-[(4)]	-*	3
Net charge-offs	**(-*)**	**-**	**(1)**	**(1)**	**-**	**(2)**
Balance of allowance for credit losses as at 31.12.2012**	**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	-	-	-	-	-*	-*

* 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, companies and international credit-card organizations, 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 slips captured by the system.
(5) As of the financial statements for March 31, 2014, the Company implemented the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

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

See notes below.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013 (4)					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee (2)	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit(3)		
Recorded debt balance of debts						
Examined on an individual basis	2	-	9	23	-	34
Examined on a collective basis	338	-	28	7	1,925	2,298
Total debts	**340**	**-**	**37**	**30**	**1,925**	**2,332**
Allowance for credit losses in respect of debts						
Examined on an individual basis	2	-	-*	1	-	3
Examined on a collective basis	6	-	-*	-*	1	7
Total allowance for credit losses	**8**	**-**	**-***	**1**	**1**	**10**

* 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, companies and international credit-card organizations, income receivable, and other debtors.

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

(4) As of the financial statements for March 31, 2014, the Company implemented the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. 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 3A.B.2.C. below.

(4) Debts in arrears of 30 to 89 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 2,400 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 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[1] (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2013 (6)					
		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	336	1	3	340	-	1
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	37	-*	-*	37	-	-*
Credit	30	-*	-*	30	-	-*
Debts under bank and other guarantee (5)	**1,925**	**-**	**-**	**1,925**	**-**	**-**
Total	**2,328**	**1**	**3**	**2,332**	**-**	**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 3A.B.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, companies and international credit-card organizations, income receivable, and other debts.

(6) As of the financial statements for March 31, 2014, the Company implemented the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

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 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. 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 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

B. Debts[1] (cont.)

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2013 (5)				
	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	2	2	1	3	3
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	-*	-*	-*	-*	-*
Credit	-*	-*	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**	**-**	**-**
Total**	**2**	**2**	**1**	**3**	**3**
** Of which:					
Debts in troubled debt restructuring	2	2	-	2	2

* 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, companies and international credit-card organizations, income receivable, and other debts.

(5) As of the financial statements for March 31, 2014, the Company implementedf the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

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

2. Additional information regarding impaired debts (cont.)

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

	Consolidated	
	For the year ended December 31	
	2014	2013 (5)
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	2	2
Credit	-	-
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**
Total	**2**	**2**

In 2012 the average recorded debt balance of impaired debts was NIS 2 million.

c. Troubled debt restructuring [3]

	Consolidated	
	For the year ended December 31	
	2014	2013 (5)
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	1	2
Credit	-	-
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**
Total	**1**	**2**

* 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.

(5) As of the financial statements for March 31, 2014, the Company implemented the directives of the Banking Supervision Department regarding updating the disclosure on the credit quality of debts and of the allowance for credit losses. Comparative figures for the corresponding period last year have been reclassified to adapt them to the format required under the said directives.

Note 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

B. 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 2A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

B. 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 3 – 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 3 – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

	December 31, 2013			
		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	292,004	325	314	91
Borrower balances over 5 and up to 10	91,804	415	370	257
Borrower balances over 10 and up to 15	45,326	278	226	292
Borrower balances over 15 and up to 20	30,069	190	129	342
Borrower balances over 20 and up to 30	34,106	232	139	590
Borrower balances over 30 and up to 40	11,089	115	68	277
Borrower balances over 40 and up to 80	6,449	135	93	186
Borrower balances over 80 and up to 150	894	48	36	43
Borrower balances over 150 and up to 300	232	32	25	14
Borrower balances over 300 and up to 600	66	15	12	12
Borrower balances over 600 and up to 1,200	25	17	14	4
Borrower balances over 1,200 and up to 2,000	13	16	8	4
Borrower balances over 2,000 and up to 4,000	8	19	14	5
Borrower balances over 4,000 and up to 8,000	3	17	7	-
Borrower balances over 8,000 and up to 20,000	2	17	9	6
Borrower balances over 20,000 and up to 40,000	1	22	-	-
Total	**512,091**	**1,893**	**1,464**	**2,123**
Income receivable	-	3	-	-
Total	**512,091**	**1,896**	**1,464**	**2,123**

(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 4 – 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, 2013 (2)	1	1	5	4	11
Additions	-	-	1	-	1
As at December 31, 2014	1	1	6	4	12
Accrued depreciation:					
As at December 31, 2013 (2)	1	1	3	4	9
Additions	-	-	1	-	1
As at December 31, 2014	1	1	4	4	10
Depreciated balance as at December 31, 2014	-*	-*	2	-	2
Depreciated balance as at December 31, 2013 (2)	-*	-*	2	-	2
Weighted average depreciation rate in % in 2014	25.0	9.9	25.0	-	
Weighted average depreciation rate in % in 2013	25.0	9.9	25.0	-	

(1) Includes capitalized software costs, in an amount less than NIS 1 million in 2014, similar to the former year.

(2) Reclassified.

* Amount less than NIS 0.5 million.

Note 5 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2014	**2013**
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	5	4
Related companies*	434	424
Others	1	1
Total other debtors and debit balances	440	429
Total other assets	**449**	**438**

* This balance is unlinked, and bears interest at the rate commonly used at Bank Hapoalim B.M. for weekly short-term deposits.

Note 6 – Credit from Banking Corporations

Reported amounts

In NIS millions

	As at December 31		As at December 31	
	Average annual interest rate		**2014**	**2013**
	For daily balance	**For transactions in the last month**		
	%	**%**		
Credit in current debit accounts	**1.14**	**1.14**	**2**	**3**

Note 7 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2014	2013
Merchants (1)	2,003	1,924
Prepaid income	2	2
Provision for loyalty program	67	58
Expenses payable	16	9
Others	20	24
Total creditors in respect of credit-card activity	**2,108**	**2,017**

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 55 million as at December 31, 2014 (December 31, 2013: NIS 63 million).

Note 8 – Subordinated Notes

Reported amounts

In NIS millions

A. Item composition

	Average duration (1)	Internal rate of return (2)	December 31	
	%	%	2014	2013
	2014			
In Israeli currency				
Unlinked	-	-	-	56

(1) Average duration is the average payment period weighted by the cash flow, capitalized at the internal rate of return.

(2) The internal rate of return is the interest rate discounting the expected cash flow to the balance-sheet balance included in the financial statements.

B. Additional information regarding subordinated notes

Subordinated notes were issued in December 2009 and September 2010 in the amount of NIS 25 million and NIS 30 million, respectively. These subordinated notes were issued for a period of ten years from their date of issue and bore variable interest only. In December 2014, the Company repaid the subordinated notes in full.

Note 9 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2014	**2013**
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	2	2
Suppliers of services and equipment	2	-
Expenses payable	4	4
Institutions	3	4
Allowance for credit losses in respect of off-balance-sheet liabilities	3	4
Others	1	1
Total other creditors and credit balances	15	15
Total other liabilities	**15**	**15**

Note 10A – Equity

	December 31, 2014		December 31, 2013	
	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

Note 10B – Capital Adequacy According to the Directives of the Supervisor of Banks

Reported amounts

In NIS millions

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. Until December 31, 2013 the Company applied the provisions of Basel II.

Adopting Basel III directives

In May 2013, the Supervisor of Banks 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 Directive", 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 directives 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 directives, the regulatory adjustments and deductions from capital as well as minority rights are not eligible for inclusion in regulatory capital and are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018. Capital instruments no longer eligible as regulatory capital will be recognized up to a ceiling of 80% on January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022.

In addition, on August 29, 2013, Banking Supervision Department issued a circular on the subject of "Basel Disclosure Requirements relating to the Composition of Capital" (hereinafter: **the "Circular"**). The circular establishes updated disclosure requirements that require the banks and credit card companies to include as part of the adoption of Basel III directives.

Note 10B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

Accordingly, as part of the Note on Capital Adequacy in the quarterly financial statements in 2014, a disclosure was included on comparative figures for previous years prepared in accordance with Basel II as adopted by the Supervisor of Banks, as well as the disclosure on audited comparative figures as at January 1, 2014 prepared in accordance with Basel III directives.

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, by 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 10B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

A. Capital components for the calculation of the capital ratio pursuant to Basel III

	As at December 31, 2014	As at January 1, 2014	As at December 31, 2013
	Basel III (1)		**Basel II (2)**
1. Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity / core capital and Tier 1 capital	292	247	247
Tier 2 capital	13	57	56
Total overall capital	**305**	**304**	**303**
2. Weighted balances of risk assets			
Credit risk	1,545	1,454	1,435
Market risk	12	5	5
Operational risk	381	348	348
Total weighted balances of risk assets	**1,938**	**1,807**	**1,788**
3. Ratio of capital to risk components			
Tier 1 shareholders' equity to risk components	15.1%	13.7%	-
Tier 1 capital to risk components	15.1%	13.7%	13.8%
Overall capital ratio to risk components	15.7%	16.8%	16.9%
Minimum Tier 1 shareholders' equity required by the Supervisor of Banks	9.0%(3)	9.0%(3)	-
Minimum Tier 1 capital required by the Supervisor of Banks	12.5%(3)	12.5%(3)	9.0%

Note 10B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

In NIS millions

B. Capital components for the calculation of the capital ratio

	As at December 31, 2014	As at January 1, 2014	As at December 31, 2013
	Basel III (1)		**Basel II (2)**
1. Tier 1 capital			
Total Tier 1 shareholders' equity before and after regulatory adjustments and deductions	292	247	247
Tier 2 capital			
Tier 2 capital: instruments before and after deductions	-	45	56
Tier 2 capital: provisions before and after deductions	13	12	-
Total Tier 2 capital	**13**	**57**	**56**

C. 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	15.1%[(4)]	13.7%	-

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299 - "Measurement and Capital Adequacy" applicable from January 1, 2014. Data as at January 1, 2014 are on the basis of balances as at December 31, 2013.

(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211 - "Measurement and Capital Adequacy" applicable until December 31, 2013.

(3) Minimum capital ratios required pursuant to the directives of the Supervisor of Banks applicable from January 1, 2015.

(4) Including expected effect of initial adoption of US GAAP on employee rights, according to expected data as at January 1, 2015.

Note 11 – Employee Rights and Share-based Payment

A. Personal Contract – Former Company Chief Executive Officer Mr. Dov Kotler – Employment Agreement

The former Chief Executive Officer of the Company, Mr. Dov Kotler, served as Chief Executive Officer of the Company, Isracard and Europay (Eurocard) Israel Ltd. under a personal contract from February 1, 2009 until January 31, 2015.

In accordance with the employment agreement and pursuant to notice of the termination of his period of office, Mr. Kotler will receive a period of advance notice of six months.Mr. Kotler shall be entitled to a supplement of the amount of severance pay to 100% of his last monthly salary.

A bonus plan established within Mr. Kotler's employment agreement, which is similar in its principles to the bonus plan for senior executives at the Company.

Pursuant to the Employment Agreement, the former Chief Executive Officer of the Company was granted in 2012 equity compensation in the form of 189,695 ordinary RSU, exercisable into shares of Bank Hapoalim, at terms identical to those established for senior executives of Bank Hapoalim in the Bank Hapoalim Remuneration Plan. The RSU vested in full over the three years of the agreement. In addition to the aforesaid RSU, the former Chief Executive Officer of the Company was granted equity compensation in the form of 60,000 Contingent RSU, in accordance with the terms of the Bank Remuneration Plan, as described. In August 2013, the Board of Directors of Bank Hapoalim resolved to change the terms of the Contingent RSU, and inter alia, the terms of the Contingent RSU that had been granted to the former Chief Executive Officer of the Company: so that the quantity of RSU to vest each year, out of the relevant tranche of Contingent RSU, will be calculated in a proportional and linear manner, based on the attainment of an ROE difference between 0.5% (0.75% for 2014) and 2%; and the shares that will derive from the exercise of the Contingent RSU will be restricted for a period of four (4) years after the end of the year in respect of which they are granted. In July 2012, the Company paid Bank Hapoalim the value of the RSU as at the date they were granted.

The Employment Agreement, including the bonus plan and the grants of the RSU was approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee, and the Board of Directors of Bank Hapoalim.

Mr. Dov Kotler's term of service ended on January 31, 2015.

B. Bonus Plan for the Former Chief Executive Officer of the Company

Within the employment agreement of the former Chief Executive Officer of the Company, as noted above, a bonus plan was established (hereinafter, in this section: the "**Plan**").

Pursuant to the Plan, a positive or negative personal budget is established each year for the former Chief Executive Officer of the Company, based on the difference between the aggregate net

Note 11 – Employee Benefits and Share-based Payment (cont.)

B. Bonus Plan for the Former Chief Executive Officer of the Company (cont.)

accounting profit/loss of all of the companies in the Isracard Group in the given year (as it appears in the annual financial statements of the group of companies), and the threshold profit for compensation established as noted above with regard to the former Chief Executive Officer of the Company himself pursuant to the plan approved previously and applicable to him (hereinafter: the "**Actual ROE Difference**"). In a year in which the Actual ROE Difference is positive, the budget shall be calculated according to progressively rising increments of the Actual ROE Difference, from an Actual ROE Difference of 2% to a ceiling of 30%; in a year in which the Actual ROE Difference is negative, the budget shall be calculated from a negative ROE difference of 2% to a negative ceiling of 30%. In a year in which the positive Actual ROE Difference is between 0% and 2%, the Board of Directors, at its sole discretion may approve an annual bonus in a limited positive amount for the former Chief Executive Officer of the Company. In addition, the positive or negative bonus budget to be established as described above shall be adjusted to the Actual ROE Difference of Bank Hapoalim in the relevant year; such adjustment may increase or decrease the positive or negative bonus budget by up to 20%.

In the event that the bonus budget in a particular year is negative due to special external circumstances that affect the entire market in which the Company operates in that year, the Board of Directors of the Company may reduce or cancel the negative bonus budget of the former Chief Executive Officer of the Company in respect of that year.

Each year, the bonus is calculated as a percent of the (positive or negative) bonus budget of the former Chief Executive Officer in respect of the previous year proportionally to his personal score. Part of the personal score shall be fixed, while part shall be based on the achievement of performance objectives set in advance.

The positive annual bonus of the former Chief Executive Officer of the Company shall not exceed an amount equal to eighteen (18) salaries. The negative annual bonus of the former Chief Executive Officer of the Company shall not exceed an amount equal to ten (10) salaries, and in any case, there shall not be a negative balance in his bonus account exceeding an amount equal to three (3) salaries.

Each year, a payment shall be made to the former Chief Executive Officer of the Company in an amount equal to 50% of the balance in the bonus account after the annual deposit in respect of the preceding year (assuming that the bonus account balance is positive) (hereinafter: the "**Annual Payment**"), unless if, in a certain year, the Company has a net loss for the year and/or a deviation from the required capital adequacy ratio. In such a case, the next Annual Payment shall be performed only after the publication of financial statements showing an aggregate net operating profit, and/or financial statements showing that the deviation from the capital adequacy ratio has ceased, as relevant.

The Plan's provisions with regard to the termination of employment of the former Chief Executive Officer of the Company, as well as the Plan's provisions with regard to the bonus in respect of profits from extraordinary transactions, are similar to the corresponding provisions in the remuneration plan

Note 11 – Employee Benefits and Share-based Payment (cont.)

B. Bonus Plan for the Former Chief Executive Officer of the Company (cont.)

for the senior executives of the Company.

On December 16, 2014, the Board of Directors of the Company gave its approval, after the approval of its Remuneration Committee, that from January 2015 until the end of the period of advance notice (July 31, 2015), the former Chief Executive Officer will be subject to the Company's Remuneration Plan adopted by it in accordance with its remuneration policy and the provisions of Proper Conduct of Banking Business Directive No. 301A of the Supervisor of Banks regarding remuneration policy in a banking corporation.

C. Details of Liabilities in Respect of Employee Rights

	December 31	
	2014	**2013**
	In NIS millions	
Early retirement	1	1
Long-service bonus	-*	-*
Provision for bonus in respect of unutilized sick days	-*	-*
Other benefits upon termination and post-employment	-*	-*
Total	**1**	**1**

* Amount less than NIS 0.5 million.

The Company's obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age.

D. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of this provision at the balance-sheet date amounted to less than NIS 0.5 million (December 31, 2013 - less than NIS 0.5 million).

Note 11 – Employee Benefits and Share-based Payment (cont.)

E. Options for Employees and Phantom Units

1. On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, would receive options to purchase shares of the Bank at a price of NIS 1 per option. These options were allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program will be similar to those of the option plan for employees in 2004-2009. The option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

2. In March 2013, the Board of Directors of the Bank approved a program for the allocation of phantom units in 2013-2017, pursuant to which permanent employees of the Bank, including employees of the Bank on loan to the Company, will receive phantom units exercised into cash. These phantom units will be allocated at no cost, in five portions, in each of the years 2013-2017. The terms of the program are similar to those of the options granted to permanent employees of the Bank in previous years. The phantom units will be exercised automatically one year after a four-year vesting period.

A. New remuneration policy regarding remuneration of all the employees of the Company

On November 19, 2013, Proper Conduct of Banking Business Directive No. 301A was published by the Supervisor of Banks. Pursuant to this directive, the Company is to adopt a remuneration policy regarding the remuneration of all the employees of the Company, including the key employees of the company (as defined by Management), in respect of whose remuneration detailed guidelines and restrictions were laid down pursuant to the directive, accordingly, on September 28, 2014, the Board of Directors of the Company approved a remuneration policy for officers of the Company, key employees and all employees in the Company. This remuneration policy establishes remuneration principles for the various populations in compliance with the Bank of Israel directives on the subject.

B. 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, function descriptions were agreed upon.

Note 12 – Assets and Liabilities by Linkage Base

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 12 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

In NIS millions

	December 31, 2013					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	4	-	8	-	-	12
Debtors in respect of credit-card activity, net	1,823	9	50	4	-	1,886
Computers and equipment	-	-	-	-	2	2
Other assets	434	-	-	-	4	438
Total assets	**2,261**	**9**	**58**	**4**	**6**	**2,338**
Liabilities						
Credit from banking corporations	*-	-	-	3	-	3
Creditors in respect of credit-card activity	1,952	9	54	-	2	2,017
Subordinated notes	56	-	-	-	-	56
Other liabilities	15	-	*-	-	-	15
Total liabilities	**2,023**	**9**	**54**	**3**	**2**	**2,091**
Difference	238	(*-)	4	1	4	247

(1) Including foreign-currency linked.

* Amount less than NIS 0.5 million.

Note 13 – Assets and Liabilities by Linkage Base and by Term to Maturity

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	1,333	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 12, “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]**
-	-	-	-	2,333	16	2,348	-
-	-	-	-	2,039	5	2,067	-
-	-	-	-	294	11	281	
-	-	-	-	69	-	69	-
-	-	2	-	58	-	58	-
-	-	(2)	-	11	-	11	-
				(2)	-	8	
-	-	-	-	2,402	16	2,417	-
-	-	2	-	2,097	5	2,125	-
-	-	(2)	-	305	11	292	-
-	-	-	-	1,952	-	1,951	

Note 13 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2013					
	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	1,483	369	348	54	10	-
Liabilities	1,077	395	366	70	27	15
Difference	406	(26)	(18)	(16)	(17)	(15)
Foreign currency (3)						
Assets	68	(8)	-	-	-	-
Liabilities	52	1	*-	-	-	-
Difference	16	(9)	*-	-	-	-
Of which: Difference in USD	15	(9)	*-	-	-	-
Total						
Assets**	1,551	361	348	54	10	-
Liabilities	1,129	396	366	70	27	15
Difference	422	(35)	(18)	(16)	(17)	(15)
** Of which: Debtors in respect of credit-card activity	1,115	360	348	54	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 12, "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]
-	-	-	-	2,264	15	2,278	-
1	57	-	-	2,008	11	2,036	0.93%
(1)	(57)	-	-	256	4	242	
-	-	-	-	60	-	60	-
-	-	-	-	53	2	55	-
-	-	-	-	7	(2)	5	-
				6	(2)	4	
-	-	-	-	2,324	15	2,338	-
1	(57)	-	-	2,061	13	2,091	-
(1)	(57)	-	-	263	2	247	-
-	-	-	-	1,887	-	1,886	

Note 14 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2014	2013
	Reported amounts in NIS millions	
Unutilized credit-card credit lines:		
Credit risk on the Company	2,041	2,122
Credit risk on banks	6,128	5,901
Allowance for credit losses	(3)	(4)
Total unutilized credit-card credit lines, net	8,166	8,019
Other liabilities:		
Exposure in respect of merchant credit lines	31	1
Allowance for credit losses	(-*)	(-*)
Total other liabilities, net	31	1

* Amount less than NIS 0.5 million.

B. Antitrust Issues and Additional Regulation

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 stood at 0.735%, and as of July 1, 2013, to the end of the period of the Arrangement (December 31, 2018) the average issuer fee will stand at 0.7% . 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.

2. Additional regulation

A. On April 2, 2014, a decision was taken by the Ministerial Committee for the Cost of Living, according to which the Bank of Israel, the Antitrust Commissioner, and the Supervisor of Banks will consider a number of issues regarding the assimilation of immediate debit cards as means of payment. Subsequently, on August 10, 2014, a memorandum bill was published, authorizing, inter alia, the Antitrust Commissioner to set the interchange fee rates for different transactions by debit cards, including setting interchange fees at zero. On May 27, 2014, the interim report of the committee to review reducing the use of cash in the Israeli economy was published for public comment. The report includes, inter alia,

Note 14 – Contingent Liabilities and Special Agreements (cont.)

recommendations for expanding the use of an immediate debit card and an identifiable prepaid card in the outline presented by the Antitrust Commissioner. On July 17, 2014, the committee published a draft resolution. On October 22, 2014, the Government approved the draft resolution on the subject dated August 6, 2014. On September 8, 2014, the Antitrust Authority published a report entitled Increasing Efficiency and Competition in the Debit Card Area whose sections include recommendations for expanding the use of debit cards in Israel and for the early crediting of vendors for charge card transactions. In January 2015, a Memorandum Law was published to reduce the use of cash, and in February 2015 an amended version of the memorandum was published, which aims to implement the report of the committee to review reducing the use of cash in the Israeli economy, while setting gradual limits on the use of cash and negotiable checks in order to reduce the incidence of a “black economy” in Israel, fight crime and money laundering, and to allow use of advanced and efficient means of payment. Among other things, the Memorandum Law granted authority to the Antitrust Commissioner to establish interchange fee rates of immediate debit card transactions. The Memorandum Law states that the terms of its application is that immediate debit cards are an available product similar to deferred debit cards. In February 2015, the Government decided to approve the Memorandum Law, and to request to convene the Knesset during its break to bring the bill for its first reading.

B. In February 2015, the Bank of Israel published recommendations and measures to extend the distribution and use of immediate debit cards in Israel and increase competition in the debit card area. Among the recommendations, the Bank of Israel will declare the interchange fee for immediate charge transactions as a commission under supervision, and its price will be set at a maximum rate of 0.3% for the year. In addition, the Supervisor of Banks shall give instructions for distributing immediate debit cards to bank customers and rules for immediate financial settlement for transactions with an immediate debit card.

C. Pursuant to the amendment of the Banking Regulations published in January 2015, the number of fees collected from small businesses that receive clearing services will be reduced by setting a uniform price list of common services in the area, from July 2015. Furthermore, pursuant to the amendment, the rules relating to fees charged to cardholders were amended, such as cancellation of a deferred payment fee in respect of new transactions by installments from February 2015, and consolidating the rules concerning the collection of conversion fees starting in April 2015.

It should be noted that the multiplicity of regulatory steps, as implemented, may have a material adverse effect on the Company's operations, but its extent cannot currently be estimated.

Note 14 – Contingent Liabilities and Special Agreements (cont.)

C. Legal Proceedings

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. 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 an application for its approval 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 the opinion of the Company's legal advisors, the chances of the claim being dismissed are greater than its chances to be accepted.

2. In July 2014, the Company and Isracard received a claim and an application for its approval as a class action, against the companies and another credit card company. The amount of the personal claim is NIS 17, and the amount of the class action is evaluated as an estimate only in the amount of NIS 200 million. According to the plaintiffs, the way in which the companies carry out the conversion to shekels for transactions made in foreign currency is not appropriate, constitutes an additional fee that was not properly disclosed to the customers and thus the Company violates various provisions of the law. The Company has filed an application for dismissal of the petition. In January 2015, the Court accepted the plaintiff's request to consolidate the hearing of the claim with a hearing on similar grounds of a lawsuit filed against banks. In the opinion of the Company's legal advisors, the chances of the claim are remote.

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 16, "Interested and Related Parties," below.

F. Contractual Engagements with Banking Corporations

The Company has entered into 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., Bank Poaley Agudat Israel Ltd., First International Bank of Israel Ltd., Mizrahi-Tefahot Bank Ltd., Jerusalem Bank Ltd., Union Bank Ltd., and UBank 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 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 banks are also responsible for any damage caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. Pursuant to the agreements, the Banks Under Arrangement are entitled to payments according to a formula established in the agreements.

G. Extension of the Agreement with American Express Ltd.

In April 2010, the agreement with the international American Express Organization was renewed, for a period of seven additional years,. 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.

H. Contractual Engagements with Clubs

Within the activity of customer clubs, the Company customarily enters 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 career military personnel and retirees, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, and the Life-Style Club.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

Note 15 – Fair Value of Financial Instruments

A. General

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

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

A "market price" cannot be quoted for 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 15 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	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).

Note 15 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments (cont.)

	December 31, 2013				
		Fair value[(a)]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	12	12	-	-	12
Debtors in respect of credit-card activity, net	1,886	-	-	1,879	1,879
Other financial assets	425	-	-	425	425
Total financial assets	***2,323**	**12**	**-**	**2,304**	**2,316**
Financial liabilities:					
Credit from banking corporations	3	3	-	-	3
Creditors in respect of credit-card activity	2,015	-	-	2,005	2,005
Subordinated notes	56	-	56	-	56
Other financial liabilities	9	-	-	9	9
Total financial liabilities	***2,083**	**3**	**56**	**2,014**	**2,073**

* Of which: assets and liabilities in the amount of NIS 12 million and NIS 3 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 16 – Interested and Related Parties of the Company

Reported amounts

In NIS millions

The Company implemented IAS 24, Related Party Disclosures, for the first time in January 2012. For details, see Note 1.E.2 above. Accordingly, new related and interested parties were identified, and others were removed; data for previous years were restated based on the new population. The Company is a direct subsidiary of Bank Hapoalim B.M.

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 16 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2013					
	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	12	34	-	-	-	-
Debtors in respect of credit-card activity, net(1)	-	-	1	1	-	-
Other assets	-	1	-	-	424	455
Liabilities						
Credit from banking corporations	3	8	-	-	-	-
Creditors in respect of credit-card activity	15	20	-	-	427	441
Subordinated notes	56	57	-	-	-	-
Other liabilities	-	-	*-	*-	*-	*-
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	3,829	4,027	4	4	-	-
Guarantees given by banks	786	819	-	-	-	-
Discounting balance with related party	-	-	-	-	3	3

* 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 16 – Interested 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, 2014		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
Income from credit-card transactions	1	-	42
Net interest income	1	-	-*
Other income	-	-	-
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
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(19)
Payments to banks	(48)	-	-
Total	**(46)**	**(1)**	**22**

	For the year ended December 31, 2012		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others(2)
Income from credit-card transactions	2	-	33
Net interest income	3	-	2
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(17)
Payments to banks	(45)	-	-
Total	**(41)**	**(1)**	**18**

* Amount less than NIS 0.5 million.
(1) Including their close family members, as defined in IAS 24.
(2) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

Note 16 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31					
	2014		2013		2012	
	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	4	1	4

In addition, in 2014, the Company had salary and related expenses in the amount of approximately NIS 3 million (in 2013 and 2012, approximately NIS 3 million and NIS 2 million, respectively) for 6 employees on loan from Bank Hapoalim.

D. Additional Information

- See Note 11 above – Employee Rights.
- See Note 14 above – Contingent Liabilities and Special Agreements.

Note 17 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Income from merchants:			
Merchant fees	297	290	269
Others	1	1	1
Total gross income from merchants	298	291	270
Less fees to other issuers	23	23	22
Total net income from merchants	275	268	248
Income in respect of credit-card holders:			
Issuer fees	14	12	11
Service fees	34	29	26
Fees from transactions abroad	9	8	7
Total income in respect of credit-card holders	57	49	44
Total income from credit-card transactions	**332**	**317**	**292**

Note 18 – Net Interest Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
A. Financing income in respect of assets:			
From credit to merchants	1	2	2
From debtors in respect of credit cards	-*	*-	*-
From deposits with banks	2	4	5
From other assets	1	1	2
Total in respect of assets	4	7	9
B. Financing expenses in respect of liabilities:			
To banking corporations	(-*)	(*-)	(*-)
On notes	(1)	(2)	(2)
Total in respect of liabilities	(1)	(2)	(2)
Total net interest income	**3**	**5**	**7**

* Amount less than NIS 0.5 million.

Note 19 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Wages and related expenses	20	22	20
Data processing and computer maintenance	13	14	13
Automatic Bank Services (ABS)	2	2	2
Royalties to international organization	37	36	34
Amortization and depreciation	1	1	1
Communications	1	1	1
Production and delivery	14	12	11
Damages from abuse of credit cards	1	1	2
Rent and building maintenance	6	5	5
Others	2	*-	2
Total operating expenses	**97**	**94**	**91**

* Amount less than NIS 0.5 million.

Note 20 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Wages and related expenses	12	11	11
Advertising	4	3*	3*
Customer retention and recruitment	20	17*	11*
Gift campaigns for credit-card holders	23	23	22
Club management fees	7	4	4
Others	3	4	3
Total sales and marketing expenses	**69**	**62**	**54**

* Reclassified.

Note 21 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Wages and related expenses	3	4	4
Insurance	1	*-	1
Payments to Isracard(1)	20	19	17
Others	4	4	3
Total general and administrative expenses	**28**	**27**	**25**

* Amount less than NIS 0.5 million.

(1) See Note 14.E above.

Note 22 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item composition:

	For the year ended December 31		
	2014	**2013**	**2012**
Current taxes for the accounting year	16	14	14
Current taxes for previous years	-	-	*-
Deferred taxes for the accounting year	-*	(*-)	(1)
Provision for taxes on income	**16**	**14**	**13**

* 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		
	2014	**2013**	**2012**
Tax rate applicable to the Company in Israel	26.5%	25%	25%
Tax amount based on statutory rate	16	14	13
Change in balance of deferred taxes due to changes in tax rates	-	(*-)	-
Provision for taxes on income	**16**	**14**	**13**

* Amount less than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2010, 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	
	2014	**2013**
From allowance for credit losses	7	8
From benefits for employees	1	*-
Total	**8**	**8**

* Amount less than NIS 0.5 million.

Note 22 – Provision for Taxes on Operating Profit (cont.)

5. Amendments of the Income Tax Ordinance

A. Corporation tax

The rates of corporation tax relevant to the Company for 2012-2014 are set out below.

2012: 25%

2013: 25%

2014: 26.5%

On August 5, 2013, the Knesset passed the Law for Changes in National Priorities (Legislative Amendments to Achieve Budget Targets for the Years 2013 and 2014) which stipulated, inter alia, an increase in the rate of Corporation Tax from 2014 and thereafter of 1.5% to stand at 26.5%.

Current taxes for the reported periods are calculated according to tax rates as presented in the table above.

B. National Insurance

On January 27, 2014, the Law for Reduction of the Deficit and Change of the Tax Burden (Legislative Amendments), 2014 (hereinafter: the "**Law**"), was passed by the Knesset. Pursuant to the Law, the rate of National Insurance contributions collected from employers with respect to the part of wages exceeding 60% of the average wage in the Israeli economy decreased to 6.75% in 2014 and 7.25% in 2015 (instead of 7% and 7.5%, respectively). From January 2016 and thereafter, the above rate will be 7.5% of the average wage.

Note 23 – Operating Segments

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; loyalty 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 23 – 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	-*	3	3
Other income (expenses)	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 23 – 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)	(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%.

(1) Restated.

Note 23 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2012		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	44	248	292
Inter-segmental fees	105	(105)	-
Total	149	143	292
Net interest income (expenses)	(*-)	7	7
Other income (expenses)	2	(1)	1
Total income	**151**	**149**	**300**
Expenses			
Provision for credit losses	5	1	6
Operating expenses	53	38	91
Sales and marketing expenses	46	8	54
General and administrative expenses	12	13	25
Payments to banks	33	40	73
Total expenses	**149**	**100**	**249**
Profit before taxes	2	49	51
Provision for taxes on profit	1	12	13
Net profit	**1**	**37**	**38**
Return on equity (percent net profit out of average capital) (1)	0.6	**-	20.7
Average balance of assets	1,821	249	2,070
Average balance of liabilities	109	1,777	1,886
Average balance of risk-adjusted assets	1,410	216	1,626

* Amount less than NIS 0.5 million.

** More than 100%.

(1) Restated.

Note 24 – Information Based on Historical Nominal Data for Tax Purposes

	December 31	
	2014	2013
	Amounts in NIS millions	
Total assets	2,417	2,338
Total liabilities	2,125	2,091
Equity	292	247
Nominal net profit	45	43