Europay (Eurocard) Israel Ltd.

Annual Report

For the year ended December 31, 2015

Table of Contents

Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the management, I am proud to submit to you the Annual Financial Report of Europay (Eurocard) Ltd. (hereinafter: "**the Company**" or "**Europay**") for 2015, which is a wholly-owned subsidiary of Isracard Ltd. (hereinafter: "**Isracard**").

The Company ended 2015 with a loss of NIS 9 million, compared with a loss of NIS 6 million in 2014. The capital ratio fell in 2015 and stands at 200%.

Isracard, which services a wide range and a variety of customers, and has service meetings with individual and corporate customers in the various channels, continues to stabilize the service to its customers as a central target providing an optimal solution to the customer's requirements. This year, we expanded and intensified the options available to our customers to obtain service and execute transactions to a range of digital channels, all this, while maintaining the excellence of its operating and procedural service.

Isracard, as the leading credit card company in Israel, continued to lead the market of payments, while adapting products and services for its various customers, investing in the recruitment of new customers and deepening the relationship with our existing customers. Isracard has taken steps to develop new growth engines, emphasizing strengthening our technological infrastructures for innovation and creativity. As part of the goal to lead in the area of online payments and purchases as well, Isracard initiated and invested in ventures encouraging secure purchases on the net to the individual customer, and, in addition, towards the year-end, it invested the "My Internet Store" venture – a solution providing a complete answer for small and medium—sized merchants throughout various stages of setting up an online business.

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

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

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

The Company's employees are the Company's key asset, and we are continuing our many and diverse activities in the development of the human resource, including training programs, professional support and development, welfare activities, etc. The employee organizations are full partners in leading the Company to its achievements, and the Company has continued to nurture the system of employment relationships with the employee organizations.

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

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

Sincerely,

Tel Aviv, February 25, 2016

List of Tables

General Review, Targets and Strategy

Summary Description of the Company and Main Areas of Operation

Europay (Eurocard) Ltd. (hereinafter "**Europay**" or "**the Company**") was established and incorporated in Israel in 1972 as a private company. The Company is a wholly-owned subsidiary of Isracard (hereinafter: "**Isracard**").

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, jointly with Isracard, issues credit cards that combine the Isracard and MasterCard brands (hereinafter: "MasterCard cards"), which are issued by the Company for use abroad and by Isracard for use in Israel, under a license granted to the Company by MasterCard International Incorporated (hereinafter: "**the MasterCard Organization**"). In addition, the Company clears transactions with merchants that have agreements with it, which are executed in Israel in foreign currency, using MasterCard cards issued abroad by companies in the MasterCard Organization, and paid to the merchant in foreign currency.

Contractual engagement between the Company and Isracard – Under an agreement between the Company and Isracard, its parent company, Isracard administers and operates, on behalf of the Company, issuance and clearing activity in Israel of transactions executed with merchants using MasterCard 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 following companies: Isracard, Poalim Express Ltd. (hereinafter: "**Poalim Express**").

Forward-Looking Information

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

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

Table 1 - Consolidated Statements of Profit and Loss – Multi-Period Information

Reported amounts

In millions of NIS

	Year ended December 31, 2015				
	2015	2014	2013	2012	2011
Operating expenses, net, per agreement with Isracard	(9)	(6)	(5)	(6)	(4)
Interest income (expenses), net	*-	*-	(*-)	2	6
Profit (loss) before taxes	(9)	(6)	(5)	(4)	2
Provision for taxes on profit	-	-	-	*-	*-
Net profit (loss)	(9)	(6)	(5)	(4)	2
Basic net profit (loss) per ordinary share (in NIS)	(1)	(3)	(12)	(9)	4

* - Amount less than NIS 0.5 million

Table 2 - Consolidated Balance Sheets – Multi-Period Information

Reported amounts

In millions of NIS

	Year ended December 31, 2015				
	2015	2014	2013	2012	2011
Assets					
Other assets	5	3	2	7	185
Total assets	5	3	2	7	185
Liabilities					
Other liabilities	-	-	-	*-	*-
Total liabilities	-	-	-	*-	*-
Capital	5	3	2	7	185
Total liabilities and capital	5	3	2	7	185

* - Amount less than NIS 0.5 million

Main Risks to which the Company is Exposed

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

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

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

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

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

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

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

Targets and Business Strategy

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

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

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

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

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

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

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

Developing and training human resources, adapting to changing needs.

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

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

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

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

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

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

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

Strategic cooperation

Agreements with international organizations

The Company issues, jointly with Isracard, credit cards in which the Isracard and Mastercard brands are combined (hereinafter "**Mastercard Cards**"). These are issued for use abroad by the Company and for use in Israel by Isracard, by virtue of a license granted to the Company by Mastercard International Incorporated (hereinafter: "**Mastercard International**"). In addition, the Company clears transactions with merchants with which they are connected in agreements made in Israel, in Mastercard cards issued abroad by the companies of Mastercard International, in foreign currency and paid to merchants in foreign currency. During 2013, the agreement between the Company and Mastercard International, regulating the system of relationships between the companies, was renewed.

Agreements with banking corporations

The Company and Isracard are connected with the banks noted below in various agreements for enrolling customers for a credit card arrangement of the Company: Bank Hapoalim B.M. (the parent company), Mizrahi-Tefahot Bank Ltd., Bank Yahav for Government Employees Ltd., First International Bank Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Igud Ltd. (jointly, the "**Banks under Arrangement**")

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

Agreements with customer clubs

Pursuant to the activity of the customer clubs, the Company and Isracard have entered into agreements with various entities representing various customer groups (hereinafter "**club members**") for the issuance of credit cards to those included in these customer groups. The cards issued to the club members usually give them discounts and special services in a range of merchants who honor the club card. The entities assuming part of the activity of the customer clubs of the Company and Isracard, including, *inter alia*, employees' organizations, professional organizations and commercial corporations interested in the issue of club cards to their customers and/or employees, via credit card. Within the framework the various types of credit cards, the Company issues Pursuant to the range of different types of credit cards the Company issues 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, Life-Style club cards, Ashmoret cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., the Rami Levi club card cards of retail chains, etc.

Main service provider: 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.

Main projects planned

One of the key projects in which Isracard is engaged is the planning and execution of the relocation of the Company’s central computer site to new premises. This transfer will improve the possibility of protection and survival of the Company's central computer. The site to which the central computer is to be transferred is an underground site protected against the severe attribution scenarios defined and approved by the Home Front Command. The site is remotely operated using an advanced monitoring and control system. Isracard has signed an agreement with a related party to lease the site for ten years with an option to extension for a further period of ten years.

The project has been approved by the Company management and the Board of Directors.

- The project to adapt the characteristics of the immediate debit card issued by the Isracard and the Company to the regulatory guidelines of the Bank of Israel, including the necessary changes in the processes of settlement in respect of the interchange fee and the dates of the credits to the merchants. The project combines the adaptation and development of interfaces with ABS and banks.

Sources of finance

The Company is financed, according to its requirements, from sources of finance of its parent company.

Explanation and Analysis of Results and Financial Position

Trends, Phenomena, Developments and Significant Changes

The Management's handling of material current topics

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

The credit card sector in Israel

As of the date of the report, the following companies are active in Israel in the area of the issuance and clearing of credit cards: (1) The Company and Isracard, which issue and clear Isracard and Mastercard-type credit cards, , respectively; (2) Isracard, which issues and clears Visa-type credit cards; (3) Poalim Express ltd. (hereinafter: "**fellow subsidiary**") which issues and clears American Express-type credit cards; (4) Leumi Card Ltd. (hereinafter "**Leumi Card**"), which, to the best of the Company's knowledge, issues Visa and Mastercard-type credit cards and clears Visa, Mastercard and Isracard-type cards; (5) Credit Cards for Israel Ltd. (hereinafter "**CAL**"), which, to the best of the Company's knowledge, issues Visa and Mastercard -type credit cards and clears Visa, Mastercard and Isracard-type cards, and (6) Diners Club Israel Ltd., a subsidiary of CAL, (hereinafter "**Diners**"), which, to the best of the Company's knowledge, issues and clears Diners-type credit cards.

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

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

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

Economic and Financial Review

Development in the Global Economy

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

Israel's economy

Activity in the economy

Growth in 2015 slowed to a rate of 2.6%, only 0.6% per capita. The low growth arose from a decrease of 2.5% in the export of goods and services and a decrease of 1.4% in investments in fixed assets. On the other hand, private consumption grew by 4.7%. The decrease in exports was affected by a weakness in global trade, the continuing appreciation in the exchange rate of the shekel and the slow recovery of the tourism sector after Operation Protective Edge in the summer of 2014. The fall in investments is worrying, as it has an impact on the growth potential of the economy in future years. The investment in housing construction continued to increase during the year and the annual rate of building starts is expected to approach 50 thousand residential units. There was a fall in the number of non-residential building construction, perhaps, reflecting the saturated state of the commercial and office space. Private consumption has increased for the last three years at rates considerably higher than GDP, and it is possible that a zero interest rate has had a significant impact on this. Analysis by sector indicates that the industry sector grew by a low rate of 1.2%, while the commercial and hospitality and food sector increased by 4.9%. The past year also saw an improvement in the high-technical industry – Israeli companies raised a record amount of US$ 4.4 billion, mostly from foreign investors.

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

The labor market maintained its strong showing, with the rate of unemployment falling to an average of 5.3%, and an increase of 2.6% in the number of people employed. The average salary increased by 2.3%, partly as a result of an increase in the minimum wage in April 2015 from NIS 4,300 to NIS 4.650. In February 2016, the S&P Credit Rating Agency affirmed the State of Israel's external credit rating at A+.

Fiscal and monetary policy

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

Inflation and exchange rates

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

Regulatory initiatives

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

2. In February 2015, the Bank of Israel published recommendations and measures to expand the distribution and use of immediate debit cards in Israel and the intensification of competition in the area of debit cards. Pursuant to the recommendations, inter alia, the Banking Supervision Department will provide regulations for distributing immediate debit cards to customers of the banks and rules for the immediate monetary settlement of accounts in transactions executed by immediate debit cards and the method of presenting a summary of the transactions executed by card. In June 2015, the Banking Supervision Department published a number of directives which were intended to lead to the implementation of the said recommendations, including a time-table for implementation, and in August 2015, a

temporary provision was published in the Official Government Gazette, in which the Governor of the Bank of Israel announced an interchange fee for immediate debit transactions as a commission under supervision and the rate was set at 0.3% of the amount of the transaction for a period of a year, with effect from April 1, 2016.

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

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

5. In June 2015, The Minister of Finance and the Governor of the Bank of Israel appointed a committee to expand competition in common banking and financial services extended to merchants and non-large businesses (the Shtrum Committee). The Committee is to make recommendations on the subject of the introduction of new players to this field, including through the separation of credit card companies from bank ownership. The Committee was also charged with the duty of recommending necessary complementary measures and the removal of barriers to the entry of players and the increase in competition, as aforesaid. On December 14, 2015, the Committee's interim report was published, in which it was recommended to, inter alia: to separate the credit card companies from the major banks within three years from the date of adopting the Committee's conclusions in legislation; to determine restrictions on the entities which are authorized to purchase the credit card companies; to increase competition in the clearing market (through providing mitigating conditions for the grant of a clearing license, the reduction in the interchange fee no later than 2018, a transition from monthly to daily clearing within a few days), to enable the separated credit card companies to use information at their disposal arising from the operation of issuing and clearing activity; to compel all banks to distribute all credit card under equivalent conditions; to prohibit the large banks from issuing credit cards for four years and enable them to issue debit cards, to enable the separated credit card companies to issue credit cards in conjunction with banks (other than the large banks) or financial entities up to a rate of 25% of their total credit card facilities and retaining supervision over the credit card companies by the Bank of Israel. With regard to some of the recommendations, there

are differing opinions of some of the members of the Committee. The Committee applied to the public to present its positions regarding the interim conclusions through February 7, 2016. The Company has submitted its position to the Committee. The Committee will hold hearings during the month of February 2016.

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

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

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

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

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

11. In May 2015, the Banking Supervision Department published a draft directive on the subject of proceedings for the collection of debts. The amendment is intended to regulate transactions that need to be taken to increase fairness and transparency when collecting debts from customers, which do not comply with the terms of their loans and do not repay it as due.

12. In May 2015, a private member’s bill was tabled in the Knesset for Increasing

Competition in the Area of Credit – The separation pf Credit Card Companies from Banks. In June 2015, the Ministerial Committee for Legislative Affairs decided to postpone discussion of the proposed law until after publication of the conclusions of the Shtrum Committee and the arrival at a consensus between the proposers of the Ministry Of Justice and the Ministry of Finance. In November 2015, the Ministerial Committee for Legislative Affairs decided to defer discussion on the proposed law for a further three months. An additional private member's bill on the matter of the separation between the credit card companies and the banks was tabled in the Knesset in June 2015.

13. In May 2015, the Banking Supervision Department published a file of questions and answers for the implementation of the Prohibition of Money Laundering Order and Proper Conduct of Banking Management Regulation no. 411 in credit card companies, including the position and binding interpretation of the Banking Supervision Department for the Order and the Regulation.

14. In June 2015, the Bank of Israel published an amendment to Proper Conduct of Banking Management Regulation no. 308 "Compliance and the Compliance Function in the Banking Corporation". The update deals mainly with the duties of the compliance officer, the duties of the management and the board oif directors, the compliance policy and plan and the scope of activity of the compliance function. The amendment came into effect on January 1, 2016.

15. In June 2015, the Banking Supervision Department published an update to Proper Conduct of Banking Management Regulations no, 301 "Board of Directors" and no. 3017 "Internal Audit". Inter alia, the amendments relate to the current functions in the credit committee, the committee for transactions with related persons and the remuneration committee.

16. In June 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Regulation no. 313 "Restrictions on Indebtedness of a Single Borrower and a Group of Borrowers". The update is further to previous actions of the Banking Supervision Department which are intended to minimize the concentration of the credit portfolios in the local banking system, and against a background of the recommendations of the Basel Committee regarding large exposures, inter alia, the definition of capital was limited to Tier 1 capital, and the restriction on the indebtedness of a bank group of borrowers to a banking corporation was changed from 25% to 15%. The amendments to the director came into effect on January 1, 2016, except for the matter of the definition of capital, for which the increment will be introduced gradually through December 31, 2018.

17. In June 2015, the Banking Supervision Department published an amendment to a directive relating to the early repayment of non-housing loans. The amendment was made as part of the implementation of the recommendations of the summary report of the Team Examining Competition in the Banking Industry, and its purpose was,

inter alia, to determine a uniform and clear mechanism for determining the interest rate according to which the capitalization component in non-housing loans was computed, and to create uniformity, as far as possible, between the early repayment of a housing loan and early repayment non-housing credit. The amendment came into effect on April 1, 2016.

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

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

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

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

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

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

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

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

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

26. In October 2015, the Knesset in plenum approved in a first reading the Credit Data

Service Law – the establishment of a system for sharing credit data and the supervisor of the system, which is intended to improve the credit data in the economy in order to increase competition in the retail credit market, increase accessibility to credit and reduce discrimination in this area.

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

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

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

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

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

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

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

34. In January 2016, the Banking Supervision Department published a draft amendment

to Proper Conduct of Banking Management Regulation no. 418, according to which the opening of clearing accounts would be permitted for individuals via the Internet, in accordance with the conditions set forth in the draft, including restrictions on the scope of clearing.

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

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

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

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

Disclosure regarding attention drawn by the Auditors

Sometimes, the independent auditor finds it appropriate to include a change from the usual version by the addition of a paragraph directing attention which is intended to emphasize a certain matter which significantly affects the financial statements and is included in a note to the financial statements. The addition of a paragraph directing attention, as aforesaid, does not affect the auditor's opinion. Therefore, this paragraph will come at the end of the auditor's report and will refer to the fact that the auditor's opinion is not qualified in this context. The auditors have directed attention to what is stated in Note 8A.2 regarding regulatory initiatives and Note 8B regarding requests to approve certain claims as class actions against the Company,

Events after the balance sheet date

With regard to events after the date of the financial statements, see Note 10 to the financial statements.

Development in balance sheet and profit and loss items

The loss of the Company in 2015 totaled NIS 9 million, compared with a loss of NIS 6 million in 2014.

The loss per share of the Company in 2015 totaled NIS 1, compared with a loss of NIS 3 in 2014, primarily attributable to an increase in the number of shares issued in 2015.

The return of the loss before taxes on average equity in 2015 amounted to a negative return of 118%, compared with a negative return of 126% in 2014.

The return of the loss on average equity in 2015 amounted to a negative return of 118%, compared with a negative return of 126% in 2014.

The balance sheet as of December 31, 2015 amounted to NIS 5 million, compared with NIS 3 million as of the end of 2014. With regard to the development in the balance sheet in the interim period, see Table 2 in the Corporate Governance Report, Additional Details and Appendices to the Annual Report below.

Equity as of December 31, 2015 reached NIS 5 million, compared with NIS 3 million on December 31, 2014.

The ratio of equity to the balance sheet reached 100% on December 31, 2015, similar to December 31, 2014.

The ratio of capital to risk-adjusted assets under the capital measurement and adequacy directives reached 200% on December 31, 2015, compared with 300% on December 31, 2014.

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.

For further details regarding the development in income and expenses in the interim period, see Table 1 in the Corporate Governance Report, Additional Details and Appendices to the Annual Report below.

Capital and Capital Adequacy

Applicability of implementation

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

As a rule, the Company's capital requirements are based on its financial statements, which are prepared in accordance with Proper Conduct of Banking Management Regulation nos. 299, 201-211 (Measurement and Capital Adequacy).

The shareholders' equity, Tier 1 capital and overall capital for 2015 amounted to NIS 5 million, compared with NIS 3 million in the corresponding period last year, an increase of 66.7%.

Risk assets in respect of credit risk for 2015 amounted to NIS 2.5 million, compared with NIS 1 million in the corresponding period last year, an increase of 150%.

The overall capital to risk assets ratio for 2015 amounted to 200%, compared with 300% in the corresponding period last year.

Table 3: Capital adequacy (1)

1. Capital for purposes of calculating capital ratio

	As of December 31	
	2015	2014
Tier 1 shareholders' equity and Tier 1 capital	5.0 (2)	3.0 (2)
Total overall capital	**5.0**	**3.0**

2. Weighted balances of risk assets

	As of December 31, 2015		As of December 31, 2014	
	Weighted balances of risk assets	Capital requirements	Weighted balances of risk assets	Capital requirements
Credit risk	2.5	-*	1.0	-*
Total weighted balances of risk assets	**2.5**	**-***	**1.0**	**-***

* Amount less than NIS 0.5 million.

3. Capital ratio to risk assets

	As of December 31	
	2015	**2014**
	Percentage	
Tier 1 shareholders' equity and Tier 1 capital to risk assets	200.0	300.0
Overall capital ratio to risk assets	300.0	300.0
Minimum Tier 1 shareholders' equity required by the Banking Supervision Department (4)	9.0	9.0
Minimum overall capital ratio required by the Banking Supervision Department (4)	12.5	12.5

(1) Computed in accordance with Proper Conduct of Banking Business Regulations No. 201-211 and 299 "Measurement and Capital Adequacy".

(2) On March 30, 2015, the Company issued to Isracard 9,322,034 shares of NIS 0.0001 par value at a price of NIS 1.18 per share. The total proceeds stand at NIS 11 million. The purpose of the issue is to comply with the minimum capital ratio conditions as required by the Bank of Israel.

(3) On March 2, 2014, the Company issued to Isracard, 1,794,872 shares of NIS 0.0001par value at a price of NIS 3.90 per share. The total proceeds amounted to NIS 7 million.

(4) The minimum capital ratio requirement according to the Banking Supervision Department with effect from January 1, 2015,

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.

Capital adequacy target

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

The Company's capital adequacy targets are as follows:

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

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

Capital Management

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

- Ensure the existence of a capital base serving as protection against unexpected risks to which the Company is exposed, supporting business strategy, and allowing compliance at all times with the minimum regulatory capital requirement (refers to the mix and amount of capital backing the strategy and risks of the Company).
- Also 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 plan. 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 operating 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.

Liquidity coverage ratio

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

The Company applies liquidity risk management policy in accordance with Proper Conduct of Banking Management Regulation no. 342, including compliance with the minimum liquidity ratio, which is intended to ensure that the Company has sufficient high-quality liquid assets providing an answer to the Company's liquidity requirements with a 30 day time-horizon in stress scenarios. The stress scenarios include a specific shock to the Company, a systemic shock and a shock combining both of them.

Once a year, the Board of Directors determines the risk tolerance in light of management's recommendations, which is reflected by establishing exposure to risk limits and a financing strategy. The risk tolerance id determined according to the Group's strategic plans, business policy and the state of the markets. In 2015, the Company complied with the limits set by the Board of Directors, as well as the limits derived from the Proper Conduct of Banking Management Regulation no. 342.

Leverage ratio

In April 2015, the Banking Supervision Department published Proper Conduct of Banking Management Regulation no. 218 regarding the leverage ratio (hereinafter "**the regulation**"). The regulation determines a non-risk based, simple, transparent leverage ratio, which will operate as a supplementary and reliable measurement for the risk-based capital requirements and which is intended to restrict the accumulation of leverage in the banking corporation and in the credit card company (hereinafter: "**banking corporation**"). The leverage ratio is expressed on percentages, and is defined in a ratio of the measurement of the capital to the measurement of the exposure. For further details, see Note 7B to the financial statements.

Issues of capital

On March 2, 2014, the Company issued to Isracard, 1,794,872 shares of NIS 0.0001par value at a price of NIS 3.90 per share. The total proceeds amounted to NIS 7 million.

On March 30, 2015, the Company issued to Isracard 9,322,034 ordinary shares of NIS 0.0001 par value each, at a price of NIS 1.18 per share. The total proceeds stand at NIS 11 million.

Allocation of dividend

In May 2012, the Company distributed a dividend to its shareholders in a total amount of NIS 174 million.

Operating Segments

General

The Company's operations are mainly conducted in th~~re~~e clearing segment.

Seasonality

Seasonality in the areas of credit-card issuance and clearing is mainly derived from the seasonality of private consumption in Israel.

The Issuance Segment

The Company and Isracard issues credit cards to their customers (credit-card holders). The credit card is used as a means of payment to purchase goods or services. Customers join the credit-card system by signing a credit-card contract with the issuer and receiving the credit card. Credit-card holders make a commitment to repay amounts owed arising from their use of the credit card. For the issuance and operating services of the card, the issuer collects various commissions from the credit card holder and an interchange fee from the clearer or merchant.

Products and Services

The Company issues credit cards, jointly with Isracard, which combine the "Mastercard" and "Isracard" brands, which are issued by the Company for use abroad, and which are issued by Isracard for use in Israel. The said cards are issued both as bank cards and as non-bank cards and are used as a means of payment for transactions and cash withdrawals, for local and overseas use.

Marketing and distribution

The Company's activity in the area of credit card issuance is conducted through Isracard, which administers and operates credit card issuance activity on behalf of the Company.

Clearing segment

The Company and Isracard are parties to clearing agreements with merchants in a variety of sectors. As part of the clearing service, the clearing credit card company makes a commitment to merchants that, subject to compliance with the terms of the agreement between them, the debits incurred by holders of cards cleared by the clearer when purchasing goods or services from the merchants will be settled by the clearer. The clearer accumulates debits for transactions executed in the credit cards, which are cleared by the clearer with a particular merchant that has signed a clearing agreement with it, in return for a fee (called the "**Merchant Fee**"), and secures and transfers to the merchant the payments incurred by the credit-card holders who executed transactions using credit cards with that merchant. In addition to clearing services, the Company offers merchants various financial services, such as marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information and sales-promotion campaigns.

Products and services

The Company clears transactions executed by merchants who are connected with it in agreements made in Israel, in Mastercard cards issued abroad by members of Mastercard International, in foreign currency and paid to the merchant in foreign currency, mainly in exchange for the abovementioned merchant fee. Isracard manages and operates the credit card clearing activity on the Company's behalf.

In addition, the Company offers services through Isracard, for example: information regarding merchants' credits, joint advertising campaigns, all at a high level of service backed by advanced technological infrastructure. Furthermore, the Company offers the possibility of secured clearing via smartphone (Payware).

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 Company's activity, as applicable. The main income and expense items are according to an agreement between the Company and Isracard for the management and operation of the credit-card issuance and clearing activity.

Marketing and sales

The Company's marketing and sales activity in the area of credit card clearing is carried out via Isracard, which manages and operates the issuance and clearing activities of the credit cards on the Company's behalf, on the basis of the principle of focusing on the merchants' requirements, and is executed through a designated system of sales and support.

Review of risks

General Description of Risks and Methods of Risk Management

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

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

a. General description of the risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principles of risk management

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

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

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

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

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

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

The key principles for risk management are as follows:

- The Board of Directors supervises the work of the management in the area of risk management, subject to the provisions of the law.

- The management of the Company is the factor responsible for implementing decisions of the Board of Directors in the area of risk management.

- Each business unit and/or operational unit is responsible for the management of the risks created as a part of its day-to-day activity, including its qualification to make decisions in relation to the assumption of risks (subject to exposure restrictions).

- The organizational structure of the risk management and the risk management processes will give appropriate expression to the Company's corporate governance principles, and will contribute, in the best way, to the existence of a chain of effective supervision over their activity, subject to the provisions of the law.

- The risk management will be proactive and will operate proactively to deal with the various material risks to which the Group companies are exposed and will not suffice with providing a retrospective response to developments and events.

- Decision-makers on the subject of risk management will operate with an overall vision of the Company's best interests and not with partial-functional vision.

- The risks to which the Company is exposed will be managed while maintaining a separation between the risk-taking lines of business and the independent risk management function under the responsibility of the Chief Risk Officer (including the Risk Management, Compliance and Prohibition of Money Laundering Department) and Internal Audit.

- The Company will fulfill continuous processes for identification, assessment and supervision of quantifiable and non-quantifiable material risks to which it is exposed, in order to ensure at any time that the material risks which it faces are identified and managed.

- For each of the material risks to which the Company is exposed a senior office-holder is appointed, at the status of a management member, who bears accountability in relation to risk.

- The chain of responsibility in relation to the risk management is built in a hierarchy, with each degree of management bearing responsibility for risks in its area of activity, such that aggregation of risk management in each area of management will be guaranteed, up to the member of management responsible for the risk.

- The concept of risk management supports the efficiency of the decision-making processes, and allows more educated decisions to be made by a wider business picture.

- The risk management concept encourages transparency in all matters related to authority, responsibility for assuming and managing risks in effective organizational internal communication, and in the flow of proper information to all factors involved in dealing with risks.

- The risk management process is dynamic and expected to develop over the long term according to the Company's varying needs, regulatory provisions, generally accepted practice in Israel and around the world and economic environmental conditions. Accordingly, it undergoes periodic examination, validation and refresher procedures in order to support the attainment of the Group companies' risk management concept.

Use of stress scenario tests

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

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

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

The main uses of stress tests are:

- Capital planning and liquidity

- Examination of the Company's risk appetite

- Identification of existing and potential credit concentrations

- Development of tools to mitigate risks and plans for business continuity.

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Main activities of the Company in the area of credit-risk management:

- The Company operates according to a credit policy document which has been approved by the management and the Board of Directors.

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

- The Company conducts internal control 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 approved by the Board of Directors.

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

Principles of Credit Concentration Risk Management

- In accordance with the second pillar of 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 ("Single Borrowers and Borrower Groups") of the Bank of Israel. In addition, the Company reports to the Bank of Israel on a quarterly basis, in accordance with the provisions of the directive.

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

Assigning Risk Ratings to Customers Based on Statistical Models

The Company's credit-risk management is based on several statistical models, which are used to establish a score for each customer or merchant. This score 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.

- 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 Financing Services Division, and validated by the Risk Management Department (the second level of controls).

Credit policy

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

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

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

Market risk

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

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

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

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

The Risk Management Department operates as a designated function for the management and control of risks, independent of the business functions. The department maintains control over material risks in the Company; its roles are defined in the basic risk management documents.

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

In order to implement the requirements of its market risk management policy, Isracard, which, as aforesaid, manages and operates the Company's activity, uses a targeted automated for asset and liability management. The Company believes that its exposure to market risks is immaterial.

Details of the various risks are as follows:

A. Linkage Base Risk

This risk is defined as exposure to currencies and to the consumer price index, expressed as the loss that may occur as a result of the effect of changes in currency exchange rates and in rates of the consumer price index on the difference between the value of assets and liabilities.

The Company applies a comprehensive policy for the management of market risks in Israeli and foreign currency in order to support the achievement of the business targets, while assessing and limiting losses which could arise from exposure to market risk.

B. Interest-Rate Exposure

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

This exposure arises from, among other factors, the gap between maturity dates and dates of interest calculations for assets and liabilities in each of the linkage segments. For the purposes of interest rate risk management, gaps between assets and liabilities in future periods are examined, and comparisons of terms to maturity of assets, liabilities, and capital are performed on a monthly basis.

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

C. Exposure to the value of securities

The Company's policy establishes a limited possibility for the execution of transactions in fixed-income, low-risk securities.

During the reported year, no transactions in securities were entered into.

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.

During the reported year, no transactions in derivative instruments were entered into.

Interest exposure management

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

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

Foreign Currency Exposure Management

Transactions are hedged using financial instruments at banks. The Company's policy is to bring foreign currency exposure to zero. The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day.

In order to control and manage the market and liquidity risk, the Financial Management Unit in the Financial Department, under the responsibility of the Market and Liquidity Risk Manager, in practice, operates to identify, measure monitor and report on the market and liquidity risks, on a routine basis.

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.

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

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.
- Procedures for monitoring and control on matters related to exposure management.
- Monthly reports on market and liquidity risk to the Board of Directors.
- Management of foreign currency risks, including decisions regarding hedging of long-term foreign currency exposures.

- Asset and liquidity management (ALM).
- Routine measurement and control of the market and liquidity risk indices of the Company.
- Preparation of reports on interest-rate risks.
- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

Chief Risk Officer

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

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

Liquidity and financing risk

The goal of the liquidity risk management process, taking into account the risk tolerance that has been established, is to ensure the Company's ability to finance the increase in its assets and to meet its liabilities when due, without falling into difficulties and without incurring material losses, including losses that may result from damage to 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 Company's ability to raise liquidity, as a result of a loss of confidence in the Company by the market, which may result from events of damage to its 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, regardless of the Company's performance.
- Risk of impairment of liquid assets – Exposure to risk as a result of erosion of the value of liquid assets, which may damage the ability of the corporation to finance liquidity gaps.

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

This policy is achieved by maintaining routine monitoring of the Company's liquidity position through the use of an internal liquidity risk management model, monitoring of indicators to identify liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current cash flow management. The disposable capital of the Company is used to give credit to cardholders and merchants, and invested in deposits with banks in shekels. Liquidity risks at the

Company are managed by the Head of Finance and Administration.

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

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

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

The Company is financed, according to its requirements, from the finance resources of its parent company.

In addition, the Company regularly reviews the mix of the sources of finance by monitoring a number of restrictions which were established in order to ensure a proper dispersal of the sources of finance.

Operating Risk

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

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

- Operating risks are identified including new processes and products.
- Appropriate controls are established.
- Operational risk management and control systems are regularly updated.
- Business continuity and emergency preparedness plans are established.

- Emergency procedures at the Company are revised.

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 determined a policy for the management of operational risks, in compliance with Proper Conduct of Banking Management Regulation no. 350 of the Bank of Israel.

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

- To manage operational risks as an integral part of the working processes in the Company, including the introduction of new products and processes.
- To maintain effective controls of risks according to risk ratings.
- To ensure effective identification of operational risks in all of the main processes at the Company.
- To create a work culture that encourages an organizational culture of risk management.
- To report loss events on a regular basis, according to the rules defined in the policy.
- To comply with legal and regulatory requirements regarding operational risks.
- To manage and allocate capital optimally in respect of operational risks.
- To establish a business continuity and emergency preparedness plan.

Other risks

Data security risks and cyber events

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

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

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

Regulatory risk

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

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

The process of identifying regulatory risk includes two main aspects:

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

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

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

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

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

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

Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

- The degree of exposure to the risk – for example, the amount of a claim submitted against the Company, the probability for the materialization of the risk – the likelihood of the success of the claim against the Company.

- Once a quarter, a quantitative examination of the loss expected in respect of the realization of legal risk is made, against the levels of the warning thresholds determined. This examination enables control to be exercised over the management of the Company's activity in the various areas in respect of which legal claims have been submitted.

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

Reputational risk

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

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

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

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

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

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

Strategic risk

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

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

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

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

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

Table 4 – Discussion of risk factors

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

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

Accounting policy and critical estimates, controls and procedures

Accounting policy and critical estimates

The financial statements of the Company are prepared in conformity with generally accepted accounting principles in Israel and in accordance with the directives and guidelines of the Banking Supervision Department, the main points of which are set forth in Note 2 to the Financial Statements, "Reporting principles and significant accounting policy". When preparing the financial statements, the Management of the Company uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the Company's reported results.

Some of these estimates and evaluations involve uncertainty, and may be affected by possible future changes.

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

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

Contingent Liabilities

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

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

Disclosure regarding controls and procedures

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

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

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

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been applied quarterly beginning with the financial statements as at June 30, 2007.

- The directive in Section 404 regarding the responsibility for the Company's internal control of financial reporting has been applied at the year end, beginning with the financial statements as at December 31, 2008

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

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2015, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal controls over financial reporting.

Dan Koller`	**Dr. Ron Wek~~x~~sler**
Chairperson of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2016

Certification of the Chief Executive Officer

I, Ron ~~Wexler~~Weksler, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Israel Ltd. (hereinafter: the "**Company**") for 2015 (hereinafter: the "**Report**").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[1] and internal control over financial reporting[1]; furthermore:

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

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

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

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

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

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

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

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

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

Dr. Ron ~~Wexler~~Weksler

Tel Aviv, February 25, 2016

Chief Executive Officer

Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Israel Ltd. (hereinafter: the "**Company**") for 2015 (hereinafter: the "**Report**").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[1] and internal control over financial reporting[1]; furthermore:

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

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

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

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

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

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

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

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

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

Sigal Barmack

Tel Aviv, February 25, 2016

Manager of Finance and Accounting Department,
Chief Accountant

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

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

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

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control of financial reporting as at December 31, 2015, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992). Based on this assessment, Management believes that, as at December 31, 2015, the Company's internal controls over financial reporting are effective.

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2015 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 62. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2015.

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

Tel Aviv, February 25, 2016

Table of Contents

Auditors' Report to the Shareholders of Europay (Eurocard) Ltd. According to the Public Reporting Directives of the Supervisor of Banks on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Europay (Eurocard) Israel Ltd. (hereinafter: "the Company") as at December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO (1992)"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as at December 31, 2015, based on criteria established in the Internal Control – Integrated Framework issued by COSO (1992).

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by the directives and guidelines of the Supervisor of Banks, the financial statements of the Company as at December 31, 2015 and 2014, for each of the years in the three-year period ended on December 31, 2015. Our report dated February 25, 2016, expressed an unqualified opinion of the aforesaid financial statements and drew attention to Note 8A.2 regarding regulatory initiatives and Note 8B concerning a petition for approval of a certain lawsuit and class action against the Company.

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

Tel Aviv, February 25, 2016

Somekh Chaikin

Auditors' Report to the Shareholders of Europay (Eurocard) Ltd. – Annual Financial Statements

We have audited the accompanying balance sheets of Europay (Eurocard) Israel Ltd. (hereinafter: "the Company") as at December 31, 2015 and 2016, and the statements of profit and loss, statements of changes in equity, and statements of cash flows of the Company for each of the three years in the period ended on December 31, 2015. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Without qualifying our aforesaid opinion, we draw attention to Note 8A.2 regarding regulatory initiatives and Note 8B regarding a petition for approval of a certain lawsuit and class suit against the Company.

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

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

Tel Aviv, February 23, 2015

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		~~2014~~2015	2014	2013
Net operating expenses under the agreement with Isracard Ltd.	3	(9)	(6)	(5)
Net interest income (expenses)		-*	-*	(*-)
Loss before taxes		(9)	(6)	(5)
Provision for taxes on profit	4	-	-	-
Loss for the year		(9)	(6)	(5)
Basic and diluted loss per common share (in NIS)		(1)	(3)	(12)
Number of common shares used in calculation		9,271,561	1,922,606	427,699

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

Tel Aviv, February 25, 2016

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

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	~~2014~~2015	2014
Assets			
Other assets	5	5	3
Total assets		**5**	**3**
Liabilities and capital			
Contingent liabilities and special commitments	8	-	-
Equity	7	5	3
Total liabilities and capital		**5**	**3**

Statements of Changes in Equity

Reported amounts

In NIS millions

	Paid-up share capital	Premium on shares	Total paid-up share capital and premium	Retained earnings	Total equity
Balance as at December 31, 2012	**1**	***-**	**1**	**6**	**7**
Loss for the year	-	-	-	(5)	(5)
Balance as at December 31, 2013	**1**	***-**	**1**	**1**	**2**
Share issue	-*	7	7	-	7
Loss for the year	-	-	-	(6)	(6)
Balance as at December 31, 2014	**1**	**7**	**8**	**(5)**	**3**
Share issue	-*	11	11	-	11
Loss for the year	-	-	-	(9)	(9)
Balance as at December 31, 2015	**1**	**18**	**19**	**(14)**	**5**

* 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		
	2015	**2014**	**2013**
Cash flows from operating activity			
Loss for the year	(9)	(6)	(5)
Adjustments:			
Change in other assets	(2)	(1)	5
Change in creditors and credit balances	-	-	(-*)
Net cash from operating activity	**(11)**	**(7)**	**-**
Cash flows from financing activity			
Net cash from financing activity	**11**	**7**	**-**
Change in cash	-	-	-
Balance of cash at beginning of year	-	-	-
Balance of cash at end of year	-	-	-

* Amount less than NIS 0.5 million.

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

Notes to the Financial Statements

Note 1 – General

Europay (Eurocard) Israel Ltd. (hereinafter: the “**Company**”) is a corporation incorporated in Israel in 1972, wholly owned by Isracard Ltd. (hereinafter: the "**Parent Company**" or "**Isracard**"), which is controlled by Bank Hapoalim B.M. The holder of the permit for control of Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

The Company is primarily engaged in issuing MasterCard credit cards for use abroad, and in clearing transactions executed using MasterCard credit cards by tourists in Israel with merchants credited in US dollars.

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

Note 2 – Significant Accounting Policies

A. Definitions

In these financial statements:

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

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

1. The Company – Europay (Eurocard) Israel Ltd.

2. The Parent Company – Isracard Ltd.

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

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

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

~~Note 1 – Significant Accounting Policies (cont.)~~

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

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (cont.)

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.

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

13. Functional currency – The currency of the main economic environment in which the company operates.

B. Basis for Preparation of the Financial Statements

1. Reporting Principles

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

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

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

2. Functional Currency and Presentation Currency

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

3. Measurement Base

The financial statements were prepared based on historical costs. 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.

~~Note 1 – Significant Accounting Policies (cont.)~~

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

Note 2 – Significant Accounting Policies (cont.)

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

4. Use of Estimates

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

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

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

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

In the financial statements for the year 2015, the Company has made a first-time implementation of the accounting standards and new directives set out below:

1. Adoption of US GAAP regarding employee rights.
2. Updating the structure of the annual report to the public of a banking corporation and of a credit card company.
3. Disclosure of interested parties and related parties.

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

1. Adoption of US GAAP regarding employee rights

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

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

Note 2 – Significant Accounting Policies (cont.)

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

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

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

The Company implemented the amendments to the Public Reporting Directives as of January 1, 2015 without retroactive amendment of the comparative figures. The effect on the financial statements is not material.

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

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

3. Disclosure of interested parties and related parties.

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

Banking corporations and credit card companies implement the amendments provisions of the circular from the report to the public for the year 2015.

Implementation of the circular had no material impact on the financial statements of the

Company except for the updated disclosure of related parties and the manner of presentation and disclosure. See also Note 9 below.

Note 2 – Significant Accounting Policies (cont.)

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

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

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

Exchange-rate differences arising from translation 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.

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

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

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

Note 2 – Significant Accounting Policies (cont.)

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

2. Basis for Recognition of Revenue and Expenses

1. Interest income and expenses are recognized on an accrual basis.

2. Other income and expenses are recognized on an accrual basis.

3. Contingent Liabilities

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

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

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

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

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

4. 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. A deferred tax asset is 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 2 – Significant Accounting Policies (cont.)

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

5. Earnings per Share

The Company presents data on basic 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.

6. 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 Group are classified under operating activity.

7. Related Party Disclosures

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

8. Related Party Disclosures

The Company's activity takes place mainly in the clearing segment.

9. Transactions with Controlling Parties

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

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

Note 2 – Significant Accounting Policies (cont.)

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

10. Loans, Including Deposits

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

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Company at their depreciated cost, with implementation of the effective interest method, excluding cases in which, pursuant to GAAP, they are presented at fair value.

Note 3 – Net Operating Income (Expenses) Under the Agreement with Isracard Ltd.

Reported amounts

In NIS millions

	For the year ended December 31		
	2015	2014	2013
Income			
Income in respect of merchants	14	14	15
The Company's share of royalties from Banks Under Arrangement	6	5	5
Total income	**20**	**19**	**20**
Expenses			
Operating expenses	22	19	20
Payments for operation and management of the arrangement	7	6	5
Total expenses	**29**	**25**	**25**
Total	**(9)**	**(6)**	**(5)**

Note 4 – Provision for Taxes on the Profit

Reported amounts

In NIS millions

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

2. Changes in Tax Rates

Companies Tax

The rates of Companies Tax relevant to the Company for 2013-2015 are set out below:

2013: 25%

2014: 26.5%

2015: 26.5%

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

Note 5 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2015	**2014**
Isracard Ltd.(1)	5	3
Surplus advance income-tax payments	-*	-*
Total other assets	**5**	**3**

* Amount less than NIS 0.5 million.

(1) The balance is unlinked, and bears interest at the rate commonly used at Bank Hapoalim B.M. for weekly short-term deposits. For further details, see Note 8D below.

Note 6 – Employee benefits

Remuneration Policy

On August 13, 2015, the Banking Supervision Department published a circular updating Proper Conduct of Banking Business Directive No. 301A on Remuneration Policy in Banking Corporations and Credit Card Companies. Pursuant to publication of the circular, the Company prepared for implementation of the update to the Directive.

Note 7 – Shareholders' Equity

A. Composition

	As at December 31, 2015		As at December 31, 2014	
	Registered	**Issued and paid-up**	**Registered**	**Issued and paid-up**
	In NIS			
Common shares of NIS 0.0001	**1,200**	**1,154**	**500**	**222**

(1) On March 2, 2014, the Company issued to Isracard 1,794,872 common shares of NIS 0.0001 par value each, at the price of NIS 3.9 per share. The total proceeds is about NIS 7 million.

(2) On March 30, 2015, the Company issued to Isracard 9,322,034 common shares of NIS 0.0001 par value each, at the price of NIS 1.18 per share. The total proceeds was about NIS 11 million.

B. Capital Adequacy and Leverage According to the Directives of the Supervisor of Banks

As of January 1, 2014, the Company applies the Measurement and Capital Adequacy Directives based on the Basel III directives (hereinafter: **"Basel III"**) as published by the Banking Supervision Department and as integrated in Proper Conduct of Banking Business Directives 201-211.

Adopting Basel III directives

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directive Nos. 201-211 on Measurement and Capital Adequacy, to conform with the provisions of Basel III.

Basel III directives set forth significant changes in the calculation of regulatory capital requirements, inter alia, with regard to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk

B. Capital Adequacy and Leverage According to the Directives of the Supervisor of Banks (cont.)

Adopting Basel III directives (cont.)

The amendments to the above directives came into effect on January 1, 2014, with gradual application in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy - Regulatory Capital - Transitional Provision", in order to facilitate compliance with the new requirements for regulatory capital in the framework of the implementation of Basel III, and to set a transitional period until they are fully implemented. The transitional provisions relate, among other things, to regulatory adjustments and deductions from capital, and equity instruments that are not eligible for inclusion in regulatory capital in accordance with the new criteria set out in the Basel directives. In particular, in accordance with the transitional provisions, the regulatory adjustments and deductions from capital as well as minority rights are not eligible for inclusion in regulatory capital are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018. Capital instruments no longer eligible as regulatory capital were recognized up to a ceiling of 80% from January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022. From January 1, 2015 until December 31, 2015 the rate of deductions from regulatory capital is 40%.

Minimum capital ratios

On May 30, 2013, the Supervisor of Banks published a circular to all the banking corporations and credit card companies regarding minimum capital ratios as part of preparations for implementing Basel III directives. Pursuant to the circular, all the banking corporations and credit card companies will be required to comply with a Tier 1 shareholders' equity minimum ratio of 9%, by January 1, 2015. In addition, a particularly significant banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets in the Israeli banking sector, is required to maintain a Tier 1 shareholders' equity minimum ratio of 10%, by January 1, 2017.

It was also determined that the minimum total capital ratios will be, 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 7 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leverage According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

In NIS millions

1. Capital for the calculation of the capital ratio (1)

	As at December 31	
	2015	**2014**
	In NIS millions	
Tier 1 shareholders' equity and Tier 1 capital	5.0 (2)	3.0 (3)
Total overall capital	**5.0**	**3.0**

2. Weighted balances of risk assets

	December 31, 2015		December 31, 2014	
	Weighted balances of risk-adjusted assets	**Capital requirement**	**Weighted balances of risk-adjusted assets**	**Capital requirement**
	In NIS millions			
Credit risk	2.5	-*	1.0	-*
Total weighted balances of risk-adjusted assets	**2.5**	*	**1.0**	*

* Amount less than NIS 0.5 million.

3. Ratio of capital to risk assets

	As at December 31	
	~~2014~~2015	~~2013~~2014
	In percent	
Ratio of Tier 1 shareholders' equity and Tier 1 capital to risk assets	200.0	300.0
Ratio of total capital to risk assets	200.0	300.0
Minimum Tier 1 shareholders' equity required by the Banking Supervision Department (4)	9.0	9.0
Minimum total capital ratio required by the Banking Supervision Department (4)	12.5	12.5

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

(2) On March 30, 2015, the Company issued to Isracard 9,322,034 common shares of NIS 0.0001 par value each, at the price of NIS 1.18 per share. The total proceeds were about NIS 11 million. The purpose of the issue was to comply with the terms of the minimum capital ratio as required by the Bank of Israel.

(3) On March 2, 2014, the Company issued to Isracard 1,794,872 common shares of NIS 0.0001 par value each, at the price of NIS 3.9 per share. The total proceeds is about NIS 7 million.

(4) Minimum capital ratio required pursuant to the directives of the Banking Supervision Department from January 1, 2015.

Note 7 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leverage According to the Directives of the Supervisor of Banks (cont.)

Leverage ratio

In April 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in banking corporations and credit card companies (hereinafter: **"Banking Corporation"**) .

The leverage ratio is expressed as a percentage, and is defined as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account transitional arrangements that were set. The total exposure measurement of the Company is the amount of balance-sheet exposures. As a rule, this measurement will be consistent with the accounting values and risk weightings are not taken into account. In addition, the Company is not allowed to use physical or financial collateral, guarantees or other techniques for mitigating credit risk, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. A banking corporation is required to comply with the minimum leverage ratio from 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined by the Directive. A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018.

The leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218 at December 31, 2015 stands at 100%.

Note 8 – Contingent Liabilities and Special Commitments

A. Antitrust issues and regulatory initiatives

1. Antitrust issues

Most of the Company's activity is performed for the Company and on its behalf by Isracard. This activity includes clearing of transactions executed with merchants in Israel in foreign currency using MasterCard cards issued abroad. Isracard clears, for itself, transactions executed with merchants in Israel using MasterCard and Isracard cards issued in Israel, and transactions executed in Israel in Israeli currency using MasterCard cards issued abroad.

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% as of July 1, 2013, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

2. Regulatory initiatives

A. In August 2011, Amendment No. 18 to the Banking Law (Licensing) was published in the Official Gazette, determining, inter alia, that a body dealing with the clearing of debit card transactions is to obtain a clearing license. Later, in December 2013, the Banking Supervision Department published the process for obtaining a clearing license and the criteria and general conditions for a controlling interest and a holder of means of control in a clearing license applicant. In November 2015, the Banking Supervision Department published a revised draft of the process of obtaining a clearing license. The draft, inter alia, detailed the capital requirements from a clearer, and set certain provisions regarding the manner of holding funds not yet transferred to the vendors, information security, working under the EMV standard, compliance with the law and more. Together with the draft, the Banking Supervision Department issued a press release stating that, inter alia: new clearers receiving a license from the Bank of Israel will be allowed to connect to a credit card system by means of hosting on infrastructure of an existing clearer, based on an agreement to be signed between them; the minimum core of control for owning a clearer was reduced as set out in the revised draft; the financial strength of the controlling shareholder of a clearer was also reduced in accordance with that stated in the revised draft and the list of entities able to comprise a core of control in a clearer was expanded.

Note 8 – Contingent Liabilities and Special Commitments (cont.)

A. Antitrust issues and regulatory initiatives (cont.)

2. Regulatory initiatives (cont.)

B. In February 2015, the Bank of Israel published recommendations and measures to extend the distribution and use of debit cards in Israel and to increase competition in the area of debit cards. Among the recommendations is, inter alia, that the Banking Supervision Department will determine instructions for distributing debit cards to bank customers and for the immediate financial settlement of debit card transactions and the manner of presentation of the details of transactions carried out with the card. In June 2015, the Banking Supervision Department published several provisions aimed at the implementation of these recommendations, including implementation timetables, and in August 2015 a temporary order was published in the Official Gazette, which the Governor of the Bank of Israel declared that the interchange fee for debit card transactions is under supervision and the rate was set at 0.3% of the transaction amount for the year starting April 1, 2016.

C. Together with that previously mentioned on the issue of debit cards, in June 2015 the Banking Supervision Department issued a directive for implementation of the use of the EMV security standard, both in issuance and in clearing. The directive sets forth, inter alia, timetables for issuing cards that support the EMV standard and for connecting terminals supporting the standard, as well as the entry into force of a mechanism for shifting responsibility from the issuer to the clearer.

D. In December 2015, the Banking Supervision Department issued a draft directive concerning clearers and the clearing of debit card transactions, in which some of the provisions referred to in paragraphs 1-3 above were set, as well as other issues, including: capital requirements of a clearer; protection of funds in settlement; the obligation of compliance with the law in accordance with the type of clearer; transfer debit transaction funds, a mechanism for shifting responsibility, clearer-vendor relations and rental of terminals.

E. In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a committee for increasing competitiveness in banking and financial services commonly provided to households and small businesses (the Strum Committee). The Committee is to make recommendations on adding new players in this field, including through separation of credit card companies from ownership of the banks. The Committee was also charged with recommending complementary measures required, and removing barriers to entry of players and increasing competition as stated.

Note 8 – Contingent Liabilities and Special Commitments (cont.)

C. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory Initiatives (cont.)

On December 14, 2015, the Committee's Interim Report was published, which recommended, among other things: separating credit card companies from the major banks within 3 years from the date of adoption of the Committee's conclusions in legislation; setting limits on those entities permitted to purchase the credit card companies; increasing competition in the clearing market (by setting lenient conditions for granting a clearing license, reducing the interchange fee no later than 2018, moving from monthly to daily clearing within a few years), to allow credit card companies that were separated to use information held by them arising from the operation of issuance and clearing activity; requiring all the banks to distribute all credit cards on equal terms; prohibiting the large banks from issuing credit cards for four years and to allow them to issue debit cards; allowing credit card companies that were separated to issue credit cards in cooperation with banks (that are not the major banks) or financial institutions up to 25% of their credit-card lines, and leaving supervision of the credit card companies with the Bank of Israel. Regarding some of the recommendations, there were differing views of some of the members of the Committee. The Committee appealed to the public to make known to it their position on the interim conclusions by February 7, 2016. The Company submitted its position to the Committee. The Committee will hold hearings in February 2016.

F. In May 2015, a private member’s bill was tabled in the Knesset for increasing competition in the area of credit - the separation of ownership of credit card companies from the banks. In June 2015, the Ministerial Committee for Legislative Affairs decided to postpone the discussion of the bill until after publication of the Strum Committee's conclusions and achieved understandings between the Justice and Finance Ministries. In November 2015, the Ministerial Committee for Legislative Affairs decided to postpone the discussion of the bill for three months. Another private member’s bill regarding the separation between credit card companies and the banks was tabled in the Knesset in June 2015.

G. In July 2015 the Knesset plenum approved on first reading a bill to reduce the use of cash that was published in January 2015 and approved by the Ministerial Committee for Legislation in May 2015, which was aimed at implementation of the report of the Committee to examine reducing the use of cash in the Israeli economy, while gradually fixing setting limits on the use of cash and negotiable checks in order to reduce the phenomenon of the “black” economy in Israel, fight crime and money laundering, and to allow use of advanced and efficient means of payment. Among other things, the bill granted authority to the Antitrust Commissioner to establish interchange fee rates for debit card transactions. The bill provides that the terms of its application is that a debit card is a product available that is similar to deferred debit cards.

Note 8 – Contingent Liabilities and Special Commitments (cont.)

C. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory Initiatives (cont.)

H. In July 2015, an amendment came into force to the Banking Regulations relating to fees, according to which the number of commissions collected from small businesses receiving clearing services was reduced, by setting a uniform price list of common services in the area. Furthermore, according to the amendment, the rules relating to fees charged to credit card holders were amended, such as the consolidation of rules concerning the collection of conversion fees. In addition, as of July 2015, an Order entered into force limiting the maximum amount of the fee that may be charged for "notice and alert message" services and an Order limiting the maximum amount of the fee for service provided by a clearer to a discount service provider in debit card transactions.

I. In August 2015, the Bank of Israel published an interim report on the "Chain of Execution in Debit Card Transactions", which includes recommendations to increase competition, efficiency and stability of the credit card market, and according to the Bank of Israel is expected to remove barriers existing in the market and to allow the entry of new players.

J. In November 2015, the Knesset plenum approved on second and third reading, as part of the Economic Arrangements Law, the Economic Plan Law for the years 2015 and 2016, in which, among other things, non-banking institutions can raise capital by issuing debt certificates to the public. Increasing the sources of funding will, among other things, enhance the competitive strength of the non-banking entities relative to the banking system in providing credit to households and small and medium businesses, and thereby reduce the cost of credit in the retail credit sector.

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

Note 8 – Contingent Liabilities and Special Commitments (cont.)

B. Legal Proceedings and Contingent Liabilities

As at the date of this report, 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.

Also pending against the Company are a lawsuit and petition for its approval as a class action, as detailed below, which in the opinion of the Company, based on its legal counsel, it is not possible at this stage to evaluate the chances of these legal proceedings, and therefore no provision was made in respect thereof.

In June 2015, the Company, Isracard and Poalim Express received a lawsuit and a motion for its approval as a class action. According to the petitioner, the respondents do not inform their customers that it is not possible to make transactions with some overseas merchants with a credit card that does not have a chip. The remedy sought is, inter alia, the immediate issuance of cards with a chip to all international card holders, compensation for customers who were unable to use their card, reimbursement of the difference between the cost of an international card and a local card, for the prior 7 years. The personal claim is approximately NIS 250, and the damage to the group of plaintiffs was not assessed. A preliminary hearing was held in the case.

C. 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 30% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

D. Agreement with Isracard (the Parent Company)

An agreement is in place between the Company and Isracard to formalize the joint activities of the parties. Account settlement between the companies is performed in accordance with this agreement.
Transactions executed in Israel in Israeli currency or foreign currency and paid to the supplier in Israeli currency are cleared by Isracard. Transactions executed in Israel in foreign currency and paid to the supplier in foreign currency are cleared by the Company.

Note 9 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2015		December 31, 2014	
	Interested parties		Interested parties	
	Controlling shareholders		Controlling shareholders	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Isracard Ltd. (1)	**5**	**12**	3	7

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

	For the year ended December 31		
	2015	2014	2013
Net operating expenses according to the agreement with Isracard	(9)	(6)	(5)
Net interest income (expenses)	-*	-*	(*-)
Total	**(9)**	**(6)**	**(5)**

(1) See Note 5 above.

* Amount less than NIS 0.5 million.

Note 10 – Events after the Financial Reporting Date

1. On January 31, 2016, the Board of Directors of the Company decided to appoint Dr. Ron ~~Wexler~~Weksler to the position of Chief Executive Officer of the Company.

   On February 2, 2016, the Supervisor of Banks' consent was received to the appointment.

2. Regarding the reduction of the rate of Companies Tax beginning in 2016 and thereafter, see Note 4.(2). above.

Note 11 – Information Based on Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2015	**2014**
Total assets	**5**	**3**
Equity	**5**	**3**
Nominal loss	**(9)**	**(6)**

The Board of Directors and Management

During 2015, the Board of Directors of the Company continued to outline the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

As part of this process, the Board of Directors established limits on exposure to the various risks and formulated policy for the activity of the subsidiaries.

The Board of Directors addressed the approval of the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee; the organizational structure of the Company; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by Management and the congruence of these operations with the policies of the Company).

The Board of Directors includes the Audit Committee, the Credit Committee, the Remuneration Committee, the Risk Management Committee, and the Information Technology Committee. The Board of Directors and the committees held detailed discussions of the various aspects of the Company's activity.

In 2015, 18 meetings of the plenum of the Board of Directors and 10 meetings of the committee of the Board of Directors were held.

Directors with financial and accounting expertise

Pursuant to the regulations of the Banking Supervision Department in the Public Reporting Directives, the Company is obliged to give details of the minimum number of directors with "financial and accounting expertise", which has been determined by it which is appropriate for

the Board of Directors and in the Audit Committee. The Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors and the Audit Committee will be two directors.

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is nine directors. The number of directors who have financial and accounting expertise, according to their education, skills and experience, in the Audit Committee is two directors. (As of the balance sheet date, December 31, 2015, there were nine directors and two directors, respectively.)

Members of the Board	
Dan Alexander Koller	Has served as Chairperson of the Board of Directors of the Company since August 10, 2014. In addition, has served as Assistant to the CEO, member of Management in Bank Hapoalim since December 1, 2008 and Head of Financial Markets Division. From April 2003 to December 2007, served as Manager of the Assets and Liabilities Section in Bank Hapoalim. From January 2008 to June 2012, served as Assistant to the CEO, Head of the Risk Management Division in Bank Hapoalim. From March 2012 to November 2013, served as Assistant to the CEO, Head of the International Division in Bank Hapoalim. Also serves as chairperson of the board of directors in the following companies: Isracard, Poalim Express, Poalim Capital Markets and Investments – Holdings Ltd., Poalim Capital Markets – Investment House Ltd., Poalim Capital Markets Ltd., Registration Co of Bank Hapoalim Ltd., Poalim Financial Holdings Ltd., Poalim Issuances Ltd., Tarshish – Poalim Holdings and Investments Ltd., Poalim Assets Ltd. (Shares) Ltd., Opaz Ltd., Continental Poalim Ltd., Poalim Israeli-American Ltd. and Pekaot Poalim Ltd., Bank Hapoalim (Switzerland) Ltd., and director on the board of directors in the following companies: Hapoalim International N.V., Tel Aviv Stock Exchange Ltd. In addition, serves as chairperson of the credit committee of the Board of Directors of Poalim Express and member of the Trustees of Hadassah International. Served as director in the following companies: Pam Holding Ltd., Poalim Asset Management (UK) Ltd., Poalim Assets (Shares) Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Hapoalim USA Holding Company Inc., Agarot Issuing Company of Bank Hapoalim Ltd., Bitzur Ltd., Israeli American Hapoalim Ltd., Temura Financial Company Ltd., Teuda Financial Company Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Agam Financial Company Ltd., Opaz Ltd., Atad Investment Company Ltd., Zohar HaShemesh Investment Ltd., Einat (Investments) Ltd., Poalim BeTvuna 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 chairperson in Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, but does not serve in it today. Also served as CEO of Matar Issuance Company Ltd., but does not serve in it today. B.A. and M.A. (with honors) in Economics and Business Administration from the Hebrew University in Jerusalem Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. D. Koller, he is not a family member of another interested party of the corporation.

Avi Idelson	Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies. External director in the Company's Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Member of the Board of Directors of the Company since January 31, 2010. Member of the Audit Committee of the Board of Directors of the Company and serves as the committee's Chairperson since February 28, 2011. Also serves as external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks on the boards of directors of the following companies: Isracard, Poalim Express and as a director in Avi Idelson Management and Consulting Ltd. Chairperson of the Audit Committee and of the Remuneration Committee of the Board of Directors of Isracard and as Chairperson of the Remuneration Committee of the Board of Directors of Poalim Express. Also, a member of the Credit Committee and the Risk Management Committee of the Board of Directors of Isracard, and a member of the Audit Committee of the Board of Directors of Poalim Express. Prior thereto, served as director on the board of directors of Mehadrin Ltd. and as member of the its balance sheet, audit and remuneration committees, as head of Human Resources and special advisor in the BSG Investments Group; as member of management in the Bank of Israel and Head of the Human Resources Department and Administration; 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 number of positions at Bank Hapoalim B.M.: Head of the Planning, Research, and Development Department; Head of the Human Resources Management Department; and various positions in the areas of training, operations, and human resources. B.A. in Sociology and Education Administration, Tel Aviv University; M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development. Courses in banking and management at Bank Hapoalim. Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University. To the best of the knowledge of the Company and of Mr. A. Idelson, he is not a family member of another interested party of the corporation.

Eldad Kahana	Member of the Board of Directors of the Company from August 8, 1979. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the Board of Directors and Audit Committee of Isracard and member of its Audit Committee and Remuneration Committee. Until July 31, 2013, served as Senior CEO Assistant and as Head of Central Legal Counsel Sib-Division, Bank Hapoalim B.M. L.L.B., Hebrew University of Jerusalem. Lawyer To the best of the knowledge of the Company and of Mr. E. Kahana, he is not a family member of another interested party of the corporation.
Itzhak Amram	Member of the Board of Directors of the Company since September 25, 2011. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Member of the Audit Committee of the Board of Directors of the Company since April 23, 2012. Also serves as an external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks of the Board of Directors of Isracard and Poalim Express, and as a member of the Audit Committee and the Risk Management committee of the Board of Directors of Isracard. 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 of the corporation.
Nisana Edvi	Member of the Board of Directors of the Company since May 29, 2012. Also a member of the Audit Committee of the Board of Directors of the Company. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. Also, serves as an external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the board of directors of the following companies: Isracard (from May 29, 2012) and Poalim Express (from October 31, 2011). Member of the Audit Committee, Credit Committee and Remuneration Committee of the board of directors of Isracard and member of the Credit Committee of the Board of Directors of Poalim Express. M.B.A., School of Business Administration, Tel Aviv University; B.A. in Economics, Tel Aviv University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Ms. N. Edvi, she is not a family member of another interested party of the corporation.

Ari Pinto	Member of Management of Bank Hapoalim B.M. since September 8, 2009, and from February 8, 2016, serves as VP of Bank Hapoalim B.M., and as Chief Operating Officer – Head of Resources, Operations and Strategy at Bank Hapoalim B.M. In the past two years, served as Assistant to the CEO of Bank Hapoalim B.M., Head of Retail Banking in Bank Hapoalim B.M. Prior thereto, served as Head of the Strategy Division, and previously, as Head of the Retail Credit and Mortgages Sub-Division and as Head of the Human Resources Sub-Division. Served as director in the Board of Directors of Isracard from November 25, 2013 to January 21, 2016. Served as Chairperson of the Board of Directors of Poalim Mortgages Insurance Agency Ltd. and Poalim Express Ltd. from July 6, 2014 to February 11, 2016. From February 9, 2016, serves as chairperson of the boards of directors of the following companies: Avoka Investment Company Ltd., BAM"Y Investment Ltd., Bitan Investment and Mortgage Company Ltd., "Mivnim ve'Tziyudim" Ltd., Altzur Development and Properties Ltd., Tzadit Ltd., Revadim (properties) Ltd., Ramhal Poalim Ltd. M.A. in Public Administration; B.A. in Business. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. A. Pinto, he is not a family member of another interested party of the corporation.
Guy Kalif	Serves as Finance and Management Information Manager in the Finance Division of Bank Hapoalim since February 14, 2016. In his previous position, served as Head of the Comptroller Sub-Division of the Finance Division in Bank Hapoalim, and prior thereto, served as Reporting and Financial Analysis Department Manager in Bank Hapoalim. Member of the Board of Directors of the Company since September 2, 2013. Also a member of the board of directors of the following companies: Isracard, Tarshish Holdings and Hapoalim Investments Ltd., Hapoalim Assets (Shares) Ltd., Opaz Ltd., Poalim Self Service Ltd., Pekaot Poalim Ltd., Poalim Ofakim Ltd., Poalim Mortgages Insurance Agency (2005) Ltd., Hapoalim Issuances Ltd. Chairperson of the Risk Management Committee of the Board of Directors of Isracard since January 21, 2015. M.B.A. specialized in finance and strategy, Tel Aviv University. 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. G. Kalif, he is not a family member of another interested party of the corporation.

Mati Tal	Director in the Company since May 2014 Also director on the boards of directors of Isracard and Chairperson of its Audit Committee and director in the board of directors of the Ashtrom Group Ltd. and Chairperson of the Audit Committee, Remuneration Committee and Balance Sheet Committee in the Ashtrom Group Chairperson of the Shema Organization - Education and Rehabilitation of Hearing Impaired Children and Youth. In the last five years, was Logistics Manager in Bank Hapoalim, and prior thereto, was CEO of Bank Hapoalim in Switzerland, CEO in Bank Otsar Hahayal and Regional Manager in Bank Hapoalim. B.A. in Economics with complementary studies in Business Administration and Computer Sciences in the Hebrew University, Jerusalem. Banking and administrative courses within Bank Hapoalim and a directorial course in the Israeli Management Center. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. M. Tal, he is not a family member of another interested party of the corporation.
Avraham Kochva	Serves as director in the Company since February 2015. Assistant to the CEO of Bank Hapoalim and acts as Head of the Technology and Computer Division. In the past five years or during part of that period, was sub-division Manager in Bank Hapoalim. Also serves as Chairperson of the Board of Directors of Poalit Ltd. and member of the Board of Directors in Isracard. M.B.A. from Derby University, England B.A. in Economics and Political Science from Bar Ilan University. Graduate of TIM Management Course from the Technion in Haifa. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. A. Kochva, he is not a family member of another interested party of the corporation.

Ronit Meiri-Harel	Serves as director on the Board of Directors of the Company since April 16, 2015. Also serves as director on the board of directors of Isracard and as member of its Audit Committee and director in Poalim Express. Also serves as director in Registration Co of Bank Hapoalim Ltd, and as director in the board of directors of the Tel Aviv Stock Exchange. Served as director on the board of directors of Maof Clearinghouse Ltd. from September 30, 2009, but no longer serves on it. In the past four years, manager of the dealing and brokerage room – in the Financial Markets Division in Bank Hapoalim B.M. M.B.A (specializing in Finance) – 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 of the corporation.
Zion Ezer	Serves as director on the Board of Directors of the Company since April 16, 2015. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Also serves as external director on the board of directors of Isracard and Poalim Express under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. B.A. in Economics. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. Z. Ezer, he is not a family member of another interested party of the corporation.
Yoram Weissbrem	Serves as director on the Board of Directors of the Company since January 20, 2016. Also serves as director on the Board of Directors of Isracard Served as Secretary of Bank Hapoalim from April 4, 1995 to June 30, 2015. Served as director on the board of directors of the following companies: Bitzur Ltd. Opaz Ltd., Poalim Nechasim (Shares) Ltd., Tarshish – Poalim Holdings and Investments Ltd., Temura Financial Company Ltd., Teuda Financial Company Ltd., Agarot Issuance Company of Bank Hapoalim Ltd., Poalim Betvuna Ltd., Zohar HaShemesh Investment Ltd., but no longer serves in them. Also served as member of the Executive Committee in the following associations: Poalim in the Community (R.A.), the Klatchkin A.M.I. Fund for Performing Artists (R.A.), Tova and Eliahu Margalit Family Scholarships (R.A.) voluntarily liquidated, Founders' Fund on behalf of Y. Efter, Y. Barelli, S. Goren, A. Zabersky, Y. Horin, R. Shenkar (R.A.) voluntarily liquidated, but no longer serves in them. Director with accounting and financial expertise.

	To the best of the knowledge of the Company and of Mr. Y. Weissbrem, he is not a family member of another interested party of the corporation.
David Luzon	Served as a member of the Board of Directors of the Company until April 16, 2015.
Ronen Stein	Serves as director on the Board of Directors of the Company since February 14, 2016 and will be appointed Chairperson of the Board of Directors following a cooling-off period of three months from the end of his term of office as CEO of the Company. For further details, see the chapter "Senior Members of Management"

Members of Senior Management

Ron ~~Wexler~~Weksler	CEO of the Company from February 2, 2016. Serves as CEO of the following credit card companies: Poalim Express and Europay. Serves as chairperson of the boards of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Serves as director on the Board of Directors of Global Factoring Ltd. Served as manager at Bank Hapoalim, VP Strategy Sub-Division from November 2013 to February 2016. Served as Head of Commerce and Sales at the Company, in Europay and Poalim Express from October 1, 2011 to October 2013. From 2002 to October 2011 fulfilled different positions at Bank Hapoalim. In the past acted as director of the following companies: Isracard Ltd., Europay and Poalim Express. Dr. in Philosophy – Dr. in Public management – Bar Ilan University. MBA from Bar Ilan University. First degree in Law from Tel Aviv University. First degree in Accounting from Tel Aviv University. To the best of the knowledge of the Company and of Mr. R. ~~Wexler~~Weksler, he is not a family member of another interested party of the corporation.
Ronen Stein	CEO of the Company from February 1, 2015 to February 1, 2016. Served as CEO of the following credit card companies: Isracard and Poalim Express. Subsequent to the balance sheet date, on February 14, 2016, was appointed to serve as a director in the Company and in the said companies. Serves as chairperson of the boards of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Serves as director on the Board of Directors of Global Factoring Ltd. But no longer serves on it In the past five years or during part of that period, served as Manager of Retail Banking Sub-Division in Bank Hapoalim, and prior thereto, fulfilled a number of management positions in Bank Hapoalim. Serves as Assistant to the CEO, member of management and manager of the Retail Division in Bank Hapoalim from February 2016, and as director on the Boards of Directors of Isracard and Poalim Express from February 14, 2016.

	Ll.B. Interdisciplinary College, Herzlia. B.A. Economics – Hebrew University in Jerusalem. Holder of investment consulting license – Israel Securities Authority Holder of license to practice law. To the best of the knowledge of the Company and of Mr. R. Stein, he is not a family member of another interested party in the corporation.
Oren Cohen Butensky	Member of Management of the Company since June 2011. VP Sales and Customer Service. Member of the Board of Directors of Tzameret Mimunim Ltd. since April 4, 2012. Previously served as head of the sales company in MIRS Communications, SDM, and as head of Internet support centers at 012. M.A. in Business and Marketing, Derby University. B.A. in Economics and Social Sciences, Bar Ilan University. B.A. in Psychology, Open University. To the best of the knowledge of the Company and of Mr. A. Cohen Butensky, he is not a family member of another interested party of the corporation.
Amir Kushilevitz-Ilan	Member of the Management of the Company since February 2011. VP Risk Management and Security and Chief Risk Officer. In the past five years or during part of that period, served as head of the Risk Management Department of the Company M.B.A., Ben Gurion University B.Sc., Aeronautics and Space Engineering, Technion. To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party of the corporation.

Vicky Levi	Member of the Management of the Company since January 1, 2014. VP Commerce. Director on the Board of Directors of Global Factoring Ltd. Since 1992, has served in various positions at Bank Hapoalim B.M. In her previous position, before the beginning of her term of office in the Company, served as the Center Regional Manager in Bank Hapoalim B.M. (2006-2013) M.B.A., Ben Gurion University; B.A. in Economics, Ben Gurion University. B.A. in Economics - Ben Gurion University. Investment advisor certified by the Israel Securities Authority. Completed a directors' course at the Interdisciplinary Center, Herzliya. To the best of the knowledge of the Company and of Ms. V. Levi, she is not a family member of another interested party in the corporation.
Maora Shalgi	Member of the Management of the Company since May 1, 2011. VP Human Resources. M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University B.A. in Social Sciences and Liberal Arts, Open University. To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.
Meirav Kalifar Peretz	Member of the Management of the Company from June 1, 2014. VP Marketing Since 1995, has fulfilled a number of positions in Bank Hapoalim B.M. In her previous position, before the beginning of her term of office in Isracard, served as Manager of the Marketing and Strategic Planning Headquarters of the Retail Division in Bank Hapoalim B.M. (2013-2014). M.B.A., Tel Aviv University B.A. in Economics – Tel Aviv University. To the best of the knowledge of the Company and of Ms. M. Kalifar Peretz, she is not a family member of another interested party of the corporation.

Ami Alpan	Member of the Management of the Company since February 27, 2007. Head of Strategic Planning. Serves as director in the following companies: Life Style - Customer Loyalty Club Ltd., Life Style Financing Ltd., Store Alliance.Com Ltd., Com Ltd. I.D.D.S and Tzameret Mimunim Ltd. M.B.A., Tel Aviv University B.A. in Management and Economics, Tel Aviv University. To the best of the knowledge of the Company and of Mr. A. Alpan, he is not a family member of another interested party in the corporation.
Ronen Zaretsky	Member of the Management of the Company from December 18, 2005. VP 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 employees, IDF soldiers, and the blind in Israel. Founder and joint authorized signatory of the Elul Charity Organization, within the non-profit association of the Shaarey Tikvah synagogue and community Torah center. To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party in the corporation.

Ron Cohen	Member of the Management of the Company since February 27, 2007. VP Credit and Financial Services. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Iguach (Securitization) Ltd. Previously served as Head of Customer Relations in the Corporate Banking Division at Bank Hapoalim B.M. M.A. in Business Administration, Marketing, and Finance, Hebrew University of Jerusalem B.A. in Economics and International Relations, Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party in the corporation.
Ram Gev	Member of the Management of the Company since the end of March 2011. VP Finance and Administration. Serves as a member of the board of directors of the following companies: Isracard (Properties) 1994 and Isracard Mimun. Previously served as Head of Finance at Harel Finance and as deputy manager of the Corporate Department at the Israel Securities Authority. M.B.A. (specialized in finance), Hebrew University of Jerusalem; B.A. in Accounting and Economics, Hebrew University of Jerusalem. Certified Public Accountant To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.

Dov Kotler	Served as Chief Executive Officer of the Company from February 1, 2009 until January 31, 2015. Served as CEO of the following credit-card companies: Isracard and Poalim Express until January 31, 2015. Also served as Chairperson of the board of directors of the following companies: Tzameret Assets, Isracard (Properties) 1994, and Isracard Mimun. Also served as director of the board of directors of Global Factoring Ltd. Member of the board of directors of the following companies: Amir Marketing and Investments in Agriculture Ltd., and H.E.O.H. Management Services Ltd.; member of the Governing Board of the Round Up Foundation. M.B.A., Finance Section, Tel Aviv University; B.A. in Economics, studies in International Relations, Tel Aviv University; AMP (Advanced Management Program), Harvard University. To the best of the knowledge of the Company and of Mr. D. Kotler, he is not a family member of another interested party in the corporation.

Internal Audit

The Company obtains its internal audit services from Bank Hapoalim B.M. (hereinafter: "**the Bank**").

Details of the Internal Auditor – Zeev Hayo has served as Internal Auditor of the Company since July 31, 2014.

Mr. Zeev Hayo has worked in the Bank Hapoalim Group since January 1990, and is employed on a full-time basis and is a member of management, Assistant to the CEO, a certified public accountant, and holds a B.A. degree in Accounting and Economics from Tel Aviv University. He is a certified public accountant with experience in the areas of banking and auditing and meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the "**Internal Audit Law**"). The Internal Auditor is not an interested party of the Company or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of Bank Hapoalim and of some of the subsidiaries in the Bank Group (including the Isracard Group companies), as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

The appointment and termination of internal audit employees are subject to approval by the Internal Auditor; internal audit employees receive instructions on audit-related matters only from the Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; Internal Audit employees are authorized to sign on behalf of the Company only documents related to audit work, as required under Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function."

Reporting responsibility of the Internal Auditor – The Chief Internal Auditor reports within the organization to the Chairperson of the Board of Directors.

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2015 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company.

The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by the Internal Auditor, the plan is submitted for discussion by the Audit Committee; and, in accordance with the committee's recommendations, the plan is discussed and approved by the Board of Directors.

The Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. The work plan includes, inter alia, resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Company management officials and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

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

Conducting the audit – Internal Audit at the Company operates under the laws, regulations, directives and guidelines of the Supervisor of Banks (including Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function"), professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Audit Committee and of the Board of Directors.

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

Access to information – Internal Audit has unrestricted access to all information at the Company, as necessary to perform its duties.

Report of the Internal Auditor's – Internal audit reports, including periodic reports, are submitted in writing. Audit reports are submitted to the Chairperson of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Company, and are also distributed to the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

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

Disclosure 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 VP 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 deficiencies discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors. The reports are signed by the Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

Additional details

Controlling owner in the Company

Europay (Eurocard) Israel Ltd. (hereinafter: "**the Company**") is a corporation which was incorporated in Israel in 1972 and is wholly-owned by Isracard (hereinafter: "**the Parent Company**" / "**Isracard**") which is under the control of Bank Hapoalim B.M. The holder of the control permit in Bank Hapoalim is Ms. Shari Arison. The Company is an ancillary corporation pursuant to the Banking Law (Licensing), 5741-1981.

Intangible Assets

The Company holds a long-term Principal Member license from the MasterCard Organization for the issuance and clearing of MasterCard cards in Israel. In addition, as a member of the MasterCard Organization, the Company has a general right to use the brands owned by the MasterCard Organization, primarily "MasterCard."

In the course of their operations, the Company and Isracard are 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 their agreements.

Human Capital

All employees of the Company are on loan to Isracard, in accordance with the arrangements prevailing between the companies.

Restrictions, legislation, standards and material special constraints

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and clearing charge cards, laws and directives related to its activity in these areas apply to the Company. 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. In addition, various directives issued by the Supervisor of Banks and applicable to credit card companies apply to the Company, such as Proper Conduct of Banking Business Directive No. 470 ("Charge Cards"), which regularizes the operation of credit card companies that are auxiliary banking corporations and of banking corporations with regard to the operation of charge-card systems. 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, a further system of rules, orders, and regulations applies to the Company, 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 its contractual engagements, its manner of conduct, and the management of its financial resources.

In addition to the laws relevant to the Company's activity as an auxiliary corporation and as a credit card company, various items of legislation apply to the Company which regularize its routine operations, including the Restrictive Trade Practices Law, 1988 (hereinafter: **the "Restrictive Trade Practices Law**"); the Interest Law, 1957; the Agency Law, 1965; the Control of Prices of Commodities and Services Law, 1957; the Control of Commodities and Services Law, 1996; and the Protection of Privacy Law, 1981 and the subsequent regulations.

Below is a reference to a number of relevant regulatory provisions for the report period:

Antitrust issues - see Note 8A.1 to the financial statements, above.

Regulatory initiatives - see Note 8A.2 to the financial statements, above.

Legal proceedings and contingencies - see Note 8B to the financial statements, above

Description of the Company's business by operating segments

An operating segment is a component in the Company that is engaged in activities from which it is likely to generate income and incur expenses; the operating results are regularly examined by the management and the Board of Directors for making decisions regarding resource allocation and assessing its performance; and separate financial information exists in respect thereof. The reporting format for the Company's operating securities is determined by the Public Reporting Directives of the Supervisor of Banks.

Credit card issuance segment

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services, respectively. 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, Europay, Poalim Express, 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 and Europay have agreements, including Bank Hapoalim (the parent company), Bank Mizrahi Tefahot Ltd., Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Union Bank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. During the year, the Company renewed agreements with a number of clubs. With regard to regulatory influences on the segment, see also "Restrictions and Supervision of the Company's Operations," below.

As stated, Isracard manages and operates the credit card issuance and clearing activities for the Company.

Critical success factors in the operating segment - In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under international licenses; (2) collaboration with banking corporations, particularly Bank Hapoalim, for the distribution and issuance of credit cards; (3) high-quality, experienced human capital; (4) quality of customer service; (5) an operational system including information systems, technologies, communications, and advanced infrastructures; (6) a technological level allowing response to changes and the development of new products; (7) a system of risk management and credit controls; (8) the ability to recruit and retain customers through a targeted marketing system; (9) agreements to establish customer clubs; and (10) operational efficiency and preservation of economies of scale.

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 make the investments necessary to issue cards and investments in technological infrastructures, including an operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (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 - Substitute payment methods such as cash, standing orders, electronic bank transfers, checks, gift cards, and rechargeable cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Contractual Arrangements with Banking Corporations

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

Competition

The area of credit-card issuance 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) recruitment 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 over the "wallet" of cardholders (who may hold charge cards issued by several companies), with the aim of customers to carry out the major portion of their routine consumption using credit cards issued by the Company and Isracard, while increasing the mix of products issued by the Company and Isracard and/or increasing the volume of use of such products; and (3) offers of non-bank credit services through revolving credit cards or through loans for cardholders, as an addition and/or alternative to credit granted by banks and other financial institutions.

For details regarding the credit-card companies operating in Israel, see the section "The Credit-card industry in Israel," in the Report of the Board of Directors and Management, above.

In order to cope with the competition in this sector, the Company, through Isracard, which operates and manages the credit card issuance activity on the Company's behalf, 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 address the requirements of the Company's customer segments and the market needs, and the development of alternative products and services to compete with the customary means of payment, such as cash and checks; (3) reinforcement of the Company's status and image through advertising, benefits, and various offers for cardholders; and (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

The positive factors affecting the Company's competitive standing include among others, the following: (1) a license agreement with Mastercard International for issuing and clearing credit cards; (2) a contractual agreement with Isracard in an arrangement to manage and operate the credit card issuance and clearing activity; (3) the Company and Isracard are leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (4) professional, skilled and experienced human capital; (5) the Company's image and brands; (6) the Company and Isracard have long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (7) the system of agreements of the Company and Isracard with customer clubs and organizations, representing a variety of segments of Israel's population; (8) the range of products and services offered to a broad spectrum of customers; (9) an advanced service system allowing a high quality of customer service; and (10) a robust capital structure and positive cash flow.

The negative factors affecting the Company's competitive standing include, among others: significant regulatory changes; technological improvements that create the possibility of developing alternative means of payment in areas, such as payment using cellular phones, which may result in a decline in demand for credit-card issuance; and the entry of retail and other entities into the issuance field and/or the 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, which are cleared by the clearer with a particular merchant that has signed a clearing agreement with it, in return for a fee (called the "**merchant fee**"), and secures and transfers to the merchant the payments incurred by the credit-card holders who executed transactions using credit cards with that merchant.

As at the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Europay, Poalim Express, 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, such as loans, advance payments, sales voucher discounting, and marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information and sales-promotion campaigns.

Critical success factors in the operating segment, and changes therein - In the Company's opinion, 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 customers of the Clearing Segment – merchants – and the ability to recruit and retain merchants through a targeted sales and marketing system; (6) the provision of related services to merchants, including various financial and operating services; (7) operational efficiency and utilization of size advantage; (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 areas as follows: (1) the need for financial means, experience, and extensive knowledge in order to carry out the large investments required in technological infrastructures, a large-scale operational, advertising and marketing system; (2) the need to obtain a license, including a license from international organizations for clearing 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) the development of a reliable information system for setting accounts; and (6) a sales, recruitment, and customer service system.

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

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" in the Report of the Board of Directors and Management, 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, by offering marketing and financial services. In order to cope with the competition in this sector, the Company, through Isracard, which manages and operates the credit card clearing activity on the Company's behalf, takes the following main steps: (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 increased customer loyalty, while adapting products and services to the merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems.

Positive factors affecting the Company's competitive standing include the following, among others: (1) license agreement with Mastercard International for the issuance and clearing of credit cards; (2) a contractual agreement with Isracard in an arrangement for the management and operation of credit card issuance and clearing activity; (3) a marketing, sales, and service system specializing in providing suitable solutions for merchants while maintaining regular contact with them, and including 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 solid capital structure and positive cash flows.

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

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

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

Tel Aviv, February 25, 2016

.

Appendices to the Annual Report

Table 1 - Statement of Profit and Loss per Quarter – Multi-Quarter Data

Reported amounts

In NIS millions

	2015			
	Q4	Q3	Q2	Q1
Net operating expenses under the agreement with Isracard Ltd.	(3)	(2)	(2)	(2)
Net interest income	-*	-*	-*	-*
Loss before taxes	(3)	(2)	(2)	(2)
Provision for taxes on profit	-	-	-	-
Loss	(3)	(2)	(2)	(2)
Basic loss per common share (in NIS)	**(1)**	**(-**)**	**(-**)**	**(-**)**

	2014			
	Q4	Q3	Q2	Q1
Net operating expenses under the agreement with Isracard Ltd.	(2)	(1)	(1)	(2)
Net interest income	-*	-*	-*	-*
Loss before taxes	(2)	(1)	(1)	(2)
Provision for taxes on profit	-	-	-	-
Loss	(2)	(1)	(1)	(2)
Basic loss per common share (in NIS)	**(1)**	**(-**)**	**(-**)**	**(2)**

* Amount less than NIS 0.5 million.

** Amount less than NIS 0.5.

Table 2 - Balance Sheet as at the End of Each Quarter – Multi-Quarter Data

Reported amounts

In NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	5	8	10	12
Total assets	**5**	**8**	**10**	**12**
Liabilities and capital				
Contingent liabilities and special commitments	-	-	-	-
Equity	5	8	10	12
Total liabilities and capital	**5**	**8**	**10**	**12**

	2014			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	3	4	6	7
Total assets	**3**	**4**	**6**	**7**
Liabilities and capital				
Contingent liabilities and special commitments	-	-	-	-
Equity	3	4	6	7
Total liabilities and capital	**3**	**4**	**6**	**7**