Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2015

ISRACARD

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Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the Management, I am proud to submit to you the Annual Financial Report of Isracard Ltd. (hereinafter "**Isracard**" or "**the Company**") for 2015.
Isracard finishes 2015 with a net profit of NIS 251 million, compared with NIS 292 million for 2014. The capital ratio increased in 2015 and is 21%.

This year, alongside our core business in the payments market, we continued to increase the Company's consumer and corporate credit portfolio, with careful and controlled management of the risks and customer requirements. As of the end of 2015, the balance of consumer credit amounted to a total of NIS 1,583 million, and the balance of corporate credit amounted to a total of NIS 829 million.

Isracard, which serves a wide and diverse range of customers, and meets individual and corporate customers in the various channels, continues to place service to its customers as a central goal, providing the optimal solution to the customer's needs. This year, we have expanded and extended the possibilities available to our customers for receiving service and executing transactions by a range of digital channels – all this while maintaining excellence in service, operation and processes.

As the leading credit card company in Israel, we have continued to lead the payments market while adapting products and services to our diverse customers. In this context, we have invested in enlisting new customers and deepening the relationship with our existing ones. We have taken steps to develop new growth engines, with an emphasis on strengthening our technological infrastructure for innovation and creativity. As part of the goal to lead in the area of payments and purchases the Company has also initiated and invested in a number of ventures which encourage safe purchases in the private customer network, and, in addition, towards the end of the year, we launched the "My Internet Store" venture – a solution supplying a complete answer for small and medium-sized merchants throughout the various stages of setting up an online business.

With the intensification of competition in the payments market in Israel, which places the Company in direct competition with both new and long-standing players from the financial arena and from other new fields, the management has adopted measures designed to maintain the Company's growth engines, under changing market and increasingly competitive conditions and in the Company's various operating segments.

With the end of 2015, we view the future and the continuation of fruitful business activity. However, because of the changes in competitive and technological regulatory environment, we have adapted the Company's multi-year strategic plan. The plan is based on an extensive analysis of the economic, regulatory and business environment, and rests on the Company's performance ability under the management's leadership. The plan combines placing the customer at the center with a regulated view 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 perfection of new growth engines, excellence and innovation in products and processes – all this in conjunction with qualitative risk management and advanced technological infrastructures.

2015 finishes with significant regulatory and legal uncertainty with the publication of interim conclusions of the Committee to Increase Competition in the Banking Services (""the Shtrum Committee"). The implementation of the committee's recommendations places challenges and consequences some of which have significant influence on the structure of the market and on the companies operating within it. The Company is examining the recommendations and the implications for the Company 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 support and 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, we decided to celebrate Isracard's 40th anniversary differently, and we declared the year to be "Year of the Family of Good Deeds". The Company this year expanded its activity of involvement in the community and volunteering of the employees and their families, and among other things, it contributed the focus of donations for a fund-raising and television event for the "Greater Than Life" Association. The Company encourages its employees for volunteering activity, from a belief that thus the feeling of belonging and satisfaction of the employees with the companies is strengthened.

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

Sincerely,

Dan Koller, Chairman of the Board of Directors

Tel Aviv, February 25, 2016

Isracard Ltd. and its Consolidated Companies

Report of the Board of Directors and Management

For the year ended December 31, 2015

ISRACARD

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General Review, Targets and Strategy

Summary Description of the Company and Main Areas of Operation

Isracard

Isracard Ltd. (hereinafter "Isracard" or "the Company") was established and incorporated in Israel in 1975 as a private company. The Company is owned by Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**").

The Company is a credit-card company and an "auxiliary corporation" according to the definition of this term in the Banking Law (Licensing), 1981 (hereinafter: "auxiliary corporation"). The Company issues, clears, and operates Isracard credit cards, which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. (hereinafter: “**Europay**”), which combines the Isracard and MasterCard brands (hereinafter: “**MasterCard cards**”). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license granted to Europay by MasterCard International Incorporated (hereinafter: "**the MasterCard Organization**"). During 2013, the agreement determining the relationship between the Company and the MasterCard Organization was renewed. In addition, the Company also issues, clears, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association (hereinafter: "**Visa Association**").

Credit-card systems consist of an issuer, a clearer, a merchant, and a customer. In some cases, the clearer is also the issuer of the credit card, whereas in other cases the clearer and the issuer are not the same entity. The Company's operations are conducted in three main segments of activity, constituting the core of its operations: credit-card issuing, credit-card clearing, and financing. The Company offers its customers unique credit products based on the nature of the customer's activity. The Company’s other activities, each of which does not constitute a reportable segment, are concentrated under the "Other" operating segment.

The Company and its consolidated companies are part of the Isracard Group, which also includes Poalim Express Ltd., a sister company owned by Bank Hapoalim (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 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 solidity 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 factors,, including: the Central Statistical Bureau, the Ministry of Finance, data from the Bank of Israel, and other factors which publish data and assessments regarding capital markets in Israel and around the world.

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

Principal Condensed Financial Information

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

Net profit of the Company in 2015 amounted to NIS 251 million, compared with NIS 292 million in the corresponding period last year, a decrease of 14.0%. Net profit last year included a gain in respect of the sale of shares of MC amounting to NIS 9 million which was made in the first quarter of 2014.

Net return on average equity in 2015 amounted to 10.8%, compared with 14.3% in 2014. (In 2014, excluding the gain from the sale of shares in MC, the rate of return was 13.8%.)

Total assets of the Company at December 31, 2015 amounted to NIS 15,893 million, compared with NIS 15,046 million at the end of 2014.

The balance of debtors in respect of credit card activity, net at December 31, 2015 amounted to NIS 15,111 million, compared with NIS 14,093 million at the end of 2014.

Total capital attributable to the Company's shareholders at December 31, 2015 amounted to NIS 2,456 million, compared with NIS 2,201 million at December 31, 2014.

The ratio of total capital to risk elements at December 31, 2015 amounted to 21.0%, compared to 19.8% at December 31, 2014.

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

Reported amounts

NIS in millions

	Year ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Income					
From credit card transactions	1,359	1,342	1,281	1,302	1,299
Net interest income	174	144	133	141	126
Other income	57	77	100	75	61
Total income	**1,590**	**1,563**	**1,514**	**1,518**	**1,486**
Expenses					
In respect of credit losses	32	19	7	37	50
Operation	529	** 481	** 506	** 485	** 498
Selling and marketing	235	216	213	257	246
General and administrative	61	63	72	72	64
Payments to banks	372	376	335	348	380
Amortization and impairment in goodwill	-	-	-	-	7
Total expenses	**1,229**	**1,155**	**1,133**	**1,199**	**1,245**
Profit before taxes	361	408	381	319	241
Provision for taxes on income	108	** 116	95	** 85	** 50
Profit after taxes	253	292	286	234	191
Company's share in profits (losses) of associate companies after the effect of tax	(2)	(*-)	*-	(*-)	(2)
Net profit					
Before attribution to non-controlling rights-holders	251	292	286	234	189
Attributed to non-controlling interests	-	-	*-	*-	
Attributed to the shareholders of the Company	**251**	**292**	**286**	**234**	**189**
Principal financial ratios					
Expenses to income	77.3%	73.9%	74.8%	79.0%	83.8%
Expenses to income before payments to banks	53.9%	49.8%	52.7%	56.1%	58.2%
Basic and diluted net profit per ordinary share attributed to shareholders of the Company (in NIS)	**342**	**396**	**390**	**318**	**258**

* Less than NIS 0.5 million/

** Restated in light of the retroactive application of the directives of the Banking Supervision Department regarding the capitalization of software costs. For further details, see Note 2C.4 to the financial statements.

Table 2 - Consolidated Balance Sheets – Multi-Period Information

Reported amounts

NIS in millions

	At December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Assets					
Cash and bank deposits	69	248	378	461	408
Debtors in respect of credit card activity	15,223	*14,192	* 13,653	*13,659	13,176
Allowance for credit losses	(112)	(99)	(88)	(83)	(67)
Debtors in respect of credit card activity, net	**15,111**	**14,093**	**13,565**	**13,576**	**13,109**
Securities	19	20	38	79	96
Investments in associate companies	1	3	5	2	2
Buildings and equipment	252	** 265	** 239	** 217	** 222
Other assets	441	** 417	** 338	** 317	** 267
Total assets	**15,893**	**15,046**	**14,563**	**14,652**	**14,104**
Liabilities					
Short-term bank credit	323	28	18	37	6
Creditors in respect of credit card activity	12,126	* 12,015	* 11,872	* 12,123	11,937
Deferred notes	-	-	-	31	32
Other liabilities	988	802	759	757	655
Total liabilities	**13,437**	**12,845**	**12,649**	**12,948**	**12,630**
Capital attributed to the Company's shareholders	2,456	** 2,201	** 1,914	** 1,704	** 1,471
Non-controlling interests	-	-	-	-	3
Total capital	2,456	2,201	1,914	1,704	1,474
Total liabilities and capital	**15,893**	**15,046**	**14,563**	**14,652**	**14,104**
Principal financial ratios					
Capital attributed to the Company's shareholders to total assets	15.5%	14.6%	13.1%	11.6%	10.4%
Total income to average balance of assets	10.4%	10.4%	10.2%	10.5%	11.1%
Total expenses to average balance of assets	8.0%	7.7%	7.6%	8.3%	9.3%
Tier 1 shareholders' equity ratio	19.9%	**18.9%	** 17.3%	**15.2%	** 13.5%
Overall capital ratio	21.0%	**19.8%	** 17.4%	**15.4%	** 13.7%
Leverage ratio (1)	12.1%				
Expenses in respect of credit losses to the average balance of debtors in respect of credit card activity	0.22%	0.14%	0.05%	0.28%	0.42%
Net profit yield to average capital	10.8%	14.3%	15.9%	14.5%	13.9%
Profit before tax yield to average capital	15.6%	20.0%	21.1%	19.7%	17.7%

* Restated

** Restated in light of the retroactive application of the directives of the Banking Supervision Department regarding the capitalization of software costs. For further details, see Note 2C.4 to the financial statements.

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

Main Risks to which the Company is Exposed

The Company's activities are subject to risks, the main ones being:

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

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

Information security risks and cyber incidents: - the risk that material leaked information 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 the 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 the various operating segments.

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 customers in the Company's various operating segments. Strengthening the customers' experience when they come in contact with the Company and expanding the added values to the various customer sectors, creating preference, conservation, loyalty and quality service.

Leadership in payments: Preserving the leadership in payments in the issuance and clearing segments through joint activity with banking distribution partners and clubs, 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 efforts to create a preference for electronic payments in the world of e-commerce, as well as paper-based payments, while penetrating new segments and intensifying activity in existing industries.

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

Developing and training human resources, adapting to changing needs.

Expansion in areas of credit and finance for private and corporate customers: competition in the growing credit area and to address the changing needs of its customers. The Company invests great efforts in finding a range of credit and finance 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 controlled support of risk 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 and technological environment.

The Company attaches great importance to the provision of quality service at a high level across operating segments 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, is 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 partnerships

Agreements with international organizations

The Company issues credit cards that combine the Isracard and MasterCard brands jointly with Europay. In addition, the Company clears transactions in Isracard and MasterCard cards issued by other local issuers and executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad and, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency are cleared by Europay. The issuance and clearing of MasterCard cards are performed under a license granted to Europay by MasterCard International Incorporated (hereinafter: "the **MasterCard Organization**"). In 2013, the agreement determining the relationship between the Company and the MasterCard

Organization was renewed. The Company also issues, clears, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association (hereinafter: "**Visa Association**").

Agreements with banking corporations

The Company is bound by various agreements for signing up customers to the Company's credit card arrangement with the following banks: Bank Hapoalim (the parent company), Bank Mizrahi Tefahot Ltd., Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd. and Union Bank Ltd. (jointly, the "**Banks under the Arrangement**").

Generally, pursuant to the various agreements with Banks Under Arrangement, each bank was granted the authority to determine which of the customers will be considered worthy of joining the Company's card arrangement and to recommend to the Company their recruitment to the card arrangement. Each Bank under the Arrangement, as stated above, is responsible for honoring every voucher and charge executed by the customer on the day the vouchers and charges are presented to the Bank under the Arrangement. Pursuant to the said various agreements, the payment arrangements also include the relevant conditions vis-à-vis each bank under the arrangement.

Agreements with customer clubs

As part of the activity with the customer clubs, the Company enters into agreements with various entities representing various customer groups, for the issue of credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services in a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. 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.

The main service-providers of the Company include:

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

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

In addition, ABS operates communications between credit-card companies on their behalf in connection with cross-transactions and clearing transactions. The Company, like the other credit-card companies in Israel, is materially dependent upon the services provided by ABS. Failure to receive such services from ABS could cause significant damage to the Company's operations.

IBM – The Company has contracted with IBM to receive various services which are required in the area of information systems, including agreements to acquire and maintain equipment and to acquire software. IBM is the exclusive supplier of mainframe computers to the Company.

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

Main projects planned

- One of the key projects the Company is engaged in is the planning and execution of the relocation of the Company 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 a 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. The Company 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 Company's 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 finances its activity from its own means, loans within the Isracard Group and daily short-term credit in the form of "on call" loans from banks.

The directives of the Banking Supervision Department including, inter alia, restrictions affecting the ability of the banking corporations in Israel to extend credit in excess of certain amounts, including restrictions relating to the total amount of debt of a "single borrower" or "group of borrowers" (as these terms are defined in those directives).

The Company, as a part of the Bank Hapoalim Group, may occasionally be restricted from obtaining credit from other banking corporations due to these provisions. The Company estimates that as of the reporting date, there is no effective restriction on the receipt of credit under the aforesaid directives.

From 2015, the Company has secured a line of credit from banking institutions, inter alia, in order to meet regulatory requirements to which it is subject.

Explanation and Analysis of Results and Financial Position

Trends, Phenomena, Developments and Significant Changes

Management's handling of material current topics

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

The credit card sector in Israel

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

The credit card companies in Israel issue and clear international credit cards, as aforesaid, (Mastercard, Visa. American Express 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 other consumer bodies; (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.

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, including Proper Conduct of Banking Management Regulation No. 470, which regulates the activity of credit card companies, and Proper Conduct of Banking Management Regulation No. 331, which provides standards for risk management, with the aim of strengthening the financial solidity of the banking system.

Bank Hapoalim and the Company, which are part of the Bank Hapoalim Group, are members in Visa Europe. In 2015, Visa International announced the exercise of an Put option which was at its disposal to acquire control in Visa Europa Ltd. In the context of the transaction, the Bank Hapoalim Group is expected to receive NIS 80 million and NIS 27 million in shares. In addition, further proceeds are expected in respect of this transaction, the value of which, at this stage, cannot be assessed, which will be granted in four years' time, according to criteria which will be provided in the future.

Economic and Financial Review

Developments 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 states, which have been the main contributors to global growth in recent years. In the developed countries, growth was similar to that in the previous year, finishing at 1.9%. An improvement in growth was particularly noticeable in certain European countries, such as Ireland, Spain and Italy. Growth in United States reached 2.4%. Eight years after the beginning of the crisis, one can say that growth rates in the developed countries have yet to return to the levels reached prior to the crisis and it is increasingly likely that this situation will persist in the coming years. This may be explained by demographic processes of ageing of the population, a decrease in non-bank investments, inter alia, as a result of the debt crisis and 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 according to the "Price to the New Household" program. Currently, the volume of transactions in apartments in the fourth quarter of the year remained high, but the share of the investors in purchases fell significantly.

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

Fiscal and monetary policy

The budgetary deficit in 2015 amounted to NIS 24.5 billion, approx 2.15% of GDP. This was lower than the original budget deficit for this year of 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 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 these 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 : inter alia, that a new clearer who has received a license from the Bank of Israel will be given an option to join the debit card system through hosting on infrastructures of an existing clearer, on the basis of an agreement to be signed between them; the minimal core control for ownership in a clearer was reduced as set forth in the amended draft; the financial strength of the controlling owner in the clearer was also reduced in accordance with that stated in the amended draft and the list of entities that was able to make up the core control in a clearer was expanded.

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

3. At the same time as the above, on the subject of immediate debit card, in June 2015, the Banking Supervision Department published a directive for introducing the 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: 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 cards 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 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 bill was placed on the table of 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 bill on the matter of the separation between the credit card companies and the banks was placed on the Knesset table in June 2015.

13. In May 2015, the Banking Supervision Department published a file of questions and answers for the implementation of the Prohibition of Money Laundering Order and Proper Conduct of Banking Management 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 functions of 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 Office to grant a discharge to restricted debtors 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 an 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 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 services from the banking corporations via the Internet or mobile phone. Thus, inter alia, it would be possible to join online banking services, a customer who joined online banking services would be able to receive a preliminary password online, and it would be possible to receive messages and warnings through online banking. Alongside the reliefs, the draft imposes increased responsibility on the banking corporations for the management of the risks inherent in the expansion of online activity and the protection of data. The draft will be discussed with the banking corporations during February 2016.

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

The large number of regulation proceedings, insofar as 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 standard version of the audit report by the addition of an emphasis of matter 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 23C.2 regarding regulatory initiatives and Note 23D 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 29 to the financial statements.

Changes in accounting policy and critical estimates

Adoption of U.S. accounting principles on employee rights

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

In addition, on January 11, 2015, a circular was published regarding employee rights, including disclosure formats and transitional provisions for the initial implementation. The circular notes that the Bank of Israel has reached the conclusion that in Israel, there is no deep market for high-quality corporate debentures.

Accordingly, the rate of capitalization for benefits to employees will be computed on the basis of the yield of Government debentures in Israel with the addition of an average margin on AA (International) and above corporate debentures at the reporting date. For practical reasons, it is provided that the margin will be determined according to the difference between the rates of yield to redemption, according to the periods of maturity, on corporate debentures rated AA and above in the United States, and the rates of yield to redemption, for those periods to maturity on Government of Israel debentures, all at the reporting date.

The circular updates the disclosure requirements regarding employee rights and regarding share-based payments in accordance with accounting principles generally accepted in the banks in the United States. In addition, on January 12, 2015, a file of questions and answers was published on the subject.

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

Significant developments in income, expenses and other comprehensive income

The Company's net profit in 2015 amounted to NIS 251 million, compared with NIS 292 million in the corresponding period last year, a decrease of 14.0%. Net profit last year included profit in respect of the sales of share in MC amounting to NIS 9 million, which took place in the first quarter of 2014.

The Company profit per share in 2015 amounted to NIS 342, compared with NIS 396 in the corresponding period last year, a decrease of 13.6%.

The rate of return on net profit to average capital amounted to 10.8% in 2015, compared with 14.3% in 2014. (In 2014, excluding the profit from the sales of MC shares, return amounted to 13.8%).

The rate of return of profit before tax to average capital amounted to 15.6% in 2015, compared to 20% in 2014. (In 2014, excluding the profit from the sales of MC shares, return amounted to 19.4%.)

Income and Expenses

Income from transactions in credit cards in 2015 amounted to NIS 1,359 million, compared with NIS 1,342 million in 2014, an increase of 1.3%, arising from the following factors:

- Income from merchants, net – amounted to NIS 836 million, compared with NIS 869 million in 2014, a decrease of 3.8%. The decrease derives from a fall in the rate of commission to merchants, partly offset by an increase in clearing turnover of transactions made in merchants connected to the Company in clearing agreements.

- Income in respect of credit card holders – amounted to NIS 523 million, compared with NIS 473 million in 2014, an increase of 10.6%. The increase derived mainly from the effect of an increase in the turnover of transactions in cards of the Company in Israel which were cleared by other clearers.

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

Interest income, net in 2015 amounted NIS 174 million, compared with NIS 144 million in 2014, an increase of 20.8%. The increase derived mainly from an increase in interest-bearing credit balances.

Expenses in respect of credit losses in 2014 amounted to NIS 32 million, compared with NIS 19 million in 2014, an increase of 68.4%. The increase was primarily attributable to an increase in consumer credit balances and the balance of debts classified as under special supervision.

Operating expenses in 2015 amounted to NIS 529 million, compared with NIS 481 million in 2014, an increase of 10.0%.

Selling and marketing expenses in 2015 amounted to NIS 235 million, compared with NIS 216 million in 2014, an increase of 8.8%. The increase derives from a net increase in expenses in respect of benefits to credit card holders and commitments with customer clubs.

General and administrative expenses in 2015 amounted to NIS 61 million, compared with NIS 63 million in 2014, a decrease of 3.2%.

Payments to banks in 2015 amounted to NIS 372 million, compared with NIS 376 million in 2014, a decrease of 1.1%.

Provision for taxes on profit in 2015 amounted to NIS 108 million, compared with NIS 116 million in 2014. The effective tax rate from the total profit from operations before taxes reached 29.9%, compared with 28.4% in 2014. (In a subsidiary, which is a financial institution, as defined in the Value Added Tax Law, 1975, the historical tax rate in 2015 stood at 37.6%, compared with 37.7% in 2014.)

For further details regarding developments in income and expenses in interim periods, see Table 5 in the Corporate Governance Report, further details and appendices to the Annual Report, below.

Development in other comprehensive income

Adjustments in respect of the presentation of available-for-sale securities at fair value, net, in 2015 amounted to income of NIS 1 million, compared with a loss of NIS 9 million in the corresponding period last year, which was primarily attributable to the classification of a profit from the sales of shares in MC to the statement of profit and loss.

Adjustments of liabilities due to employee rights, net, amounted to NIS 2 million in 2015.

Table 3: Operating data

Number of credit cards (in thousands)

Number of valid credit cards as of December 31, 2015

	Active cards	Inactive cards	Total
Bank cards	2,378	489	2,867
Non-bank cards –			
Credit risk on the Company	667	368	1,035
Credit risk on others	47	53	100
	714	421	1,135
Total	**3,092**	**910**	**4,002**

Number of valid credit cards as of December 31, 2014

	Active cards	Inactive cards	Total
Bank cards	2,226	437	2,703
Non-bank cards –			
Credit risk on the Company	615	231	846
Credit risk on others	43	46	89
	658	277	935
Total	**2,924**	**714**	**3,638**

Volume of Transactions in Credit Cards Issued by the Company (in NIS millions)

	For the year ended December 31	
	2015	**2014**
Bank cards	91,158	86,238
Non-bank cards –		
Credit risk on the Company	15,171	13,522
Credit risk on others	1,215	1,156
	16,386	14,678
Total	**107,544**	**100,916**

Definitions:

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

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

Bank credit card: A card for which customer debits are performed in accordance with the Company's agreements with banks; debits related to the card are the responsibility of the relevant bank.

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

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

Investments and expenses of the Company in respect of the data technology system

Software development expenses have been capitalized to fixed assets when the following may be reliably measured: the development costs, the technical feasibility of the software, the expectation of a future economic benefit from the development and sufficient resources of the Company to complete the development and use the software. The expenses capitalized include the costs of materials and direct labor which are directly attributed to the preparation of the asset for its intended use. Other development costs, if any, are allocated to the statement of profit and loss when they arise.

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

The Company has applied the directives regarding the capitalization of software costs by way of retroactive application. Comparative figures have been restated; see Note 2C.4 to the financial statements.

Definitions relevant to the information presented:

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

Assets in respect of information-technology systems: Software acquisition, products, and project manpower.

Development of new systems for internal use, purchasing of new systems, purchasing of new products, and personnel developing new systems and products.

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

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

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

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

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

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

Table 4: Investments and expenses of the Company in respect of the information technology system

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	26	9	4	39
Expenses for acquisitions or usage licenses not capitalized as assets	31	-	-	31
Outsourcing expenses	52	-	-	52
Depreciation expenses	47	30	-	77
Other expenses	2	4	2 (2)	8
Total	**158**	**43**	**6**	**207**

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

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	12	-	-	12
Outsourcing costs	27	-	-	27
Costs of acquisition or usage licenses	15	23	-*	38
Costs of equipment, buildings, and land	-	-	-*	-*
Total	**54**	**23**	**-***	**77**

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

	Software	Hardware(1)	Other	Total
Total depreciated cost	101	36	-	137
Of which: in respect of wages and related costs**	79	-	-	79

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to sister companies.

(3) Including prepaid expenses in respect of information technology

Table 4: Investments and expenses of the Company in respect of the information technology system (contd.)

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	28	10	4	42
Expenses for acquisitions or usage licenses not capitalized as assets	26	-	-	26
Outsourcing expenses	46(4)	-	-	46
Depreciation expenses	33 (4)	19	1	53
Other expenses	1	2	6(2)	9
Total	**134**	**31**	**11**	**176**

Additions to assets (3) in respect of information-technology not allocated as expenses (in NIS millions)

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	13	-	-	13
Outsourcing costs	27 (4)	-	-	27
Costs of acquisition or usage licenses	33	23	-*	56
Costs of equipment, buildings, and land	-	-	-*	-*
Total	**73**	**23**	**-***	**96**

Balances of assets (3) in respect of information-technology (in NIS millions)

	Software	Hardware(1)	Other	Total
Total depreciated cost	97	47	3	147
Of which: in respect of wages and related costs**	65	-	-	65

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to fellow subsidiaries.

(3) Including prepaid expenses in respect of information technology

(4) Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 in the financial statements below.

Off-balance sheet activity in areas not related to activity in credit cards

The Company has other guarantees and liabilities in respect of:

- Exposure to guaranteed cheques as of December 31, 2015 amounting to NIS 68 million compared with NIS 70 million at the end of 2014, a decrease of 2.9%.

- Liability in respect of discounting debtors as of December 31, 2015 amounting to NIS 61 million compared with NIS 52 million at the end of 2014, an increase of 17.3%.

Development of assets and liability, capital and capital adequacy

Debtors in respect of credit card activity

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

Debtors' balances in respect of credit cards to private persons under the responsibility of the Company as of December 31, 2015 stood at NIS 1,595 million, compared with NIS 1,451 million at the end of 2014, an increase of 9.9%

Debtors' balances in respect of commercial credit cards under the Company's responsibility as of December 31, 2015 stood at NIS 165 million, compared with NIS 176 million at the end of 2014, a decrease of 6.3%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2015 stood at NIS 9,805 million, compared with NIS 9,382 million at the end of 2014, an increase of 4.5%.

Balances of credit to private persons under the Company's responsibility as of December 31, 2015 stood at NIS 1,508 million. compared with NIS 849 million at the end of 2014, an increase of 77.6%, attributable to the Company increased activity in this area.

Commercial credit balances under the Company's responsibility as of December 31, 2015 stood at NIS 829 million, compared with NIS 950 million at the end of 2014, an increase of 12.7%.

Credit balances under banks' guarantee as of December 31, 2015 stood at NIS 75 million, compared with NIS 77 million at the end of 2014, a decrease of 2.6%.

The balance of the allowance for debtors in respect of credit cards to private persons under the Company's responsibility as of December 31, 2015 stood at NIS 32 million, compared to NIS 33 million at the end of 2014, a decrease of 3.0%.

The balance of the allowance for debtors in respect of commercial credit cards as of December 31, 2015 stood at NIS 3 million, similar to the amount at the end of 2014.

The balance of the allowance in respect of credit risk under the guarantee of banks and others as of December 31, 2015 stood at NIS 10 million, compared with NIS 8 million at the end of 2014, an increase of 25%.

The balance of the allowance in respect of credit to private persons under the Company's responsibility stood at NIS 52 million, compared with NIS 41 million at the end of 2014, an increase of 26.8%.

The balance of the allowance in respect of commercial credit under the Company's responsibility stood at NIS 19 million, compared with NIS 16 million at the end of 2014, an increase of 18.8%.

2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2015 amounted to NIS 170 million, compared with NIS 99 million at the end of 2014, an increase of 71.7%.

The balance of impaired debts as of December 31, 2015 amounted to NIS 15 million, compared with NIS 12 million at the end of 2014, an increase of 25.0%.

The balance of inferior debts as of December 31, 2015 amounted to NIS 12 million, compared with NIS 5 million at the end of 2014, an increase of 140%

The balance of debts under special supervision as of December 31, 2015 amounted to NIS 143 million, compared with NIS 82 million at the end of 2014, an increase of 74.4%

3. Off-balance sheet credit

Balances of unutilized credit facilities under the Company's responsibility as of December 31, 2015 stood at NIS 9,004 million, compared with NIS 8,032 million at the end of 2014, an increase of 12.1%.

Balances of unutilized credit facilities under bank guarantee as of December 31, 2015 stood at NIS 26,503 million, compared with NIS 25,552 million at the end of 2014, an increase of 3.7%.

Balances of the allowance in respect of unutilized credit facilities of Company as of December 31, 2015 stood at NIS 10 million similar to the amount at the end of 2014.

Other off-balance sheet items

Exposure in respect of facilities to merchants as of December 31, 2015 amounting to NIS 163 million, compared with NIS 279 million at the end of 2014, a decrease of 41.6%.

Exposure in respect of other liabilities and guarantees as of December 31, 2015 amounting to NIS 199 million, compared with NIS 128 million, an increase of 55.5%.

Other balance sheet items

Cash and deposits in banks as of December 31, 2015 amounted to NIS 69 million, compared with NIS 248 million at the end of 2014.

Securities in the available-for-sale portfolio as of December 31, 2015 amounted to NIS 19 million, compared with NIS 20 million at the end of 2014.

Buildings and equipment as of December 31, 2015 amounted to NIS 252 million, compared with NIS 265 million at the end of 2014.

Other assets as of December 31, 2015 amounted to NIS 441 million, compared with NIS 417 million at the end of 2014, of this, discounting of debtors amounted to NIS 218 million and NIS 185 million, respectively.

Creditors in respect of credit card activity as if December 31, 2015 amounted to NIS 12,126 million, compared with NIS 12,015 million at the end of 2014. This amount includes mostly the balances for payment to merchants for transactions of credit card holders, which, as of the balance sheet date, had not yet been paid.

Other liabilities as of December 31, 2015 amounted NIS 988 million, compared with NIS 802 million at the end of 2014. Of this, prepaid cards amounting to NIS 131 million and accrued expenses in respect of salary and related expenses amounting to NIS 61 million (2014 – prepaid cards, NIS 107 million and accrued expenses in respect of salary and related expenses, NIS 64 million).

For further details regarding the development of assets and liabilities in interim periods, see Table 6 in the Corporate Governance Report, further details and appendices to the Annual Report, below.

Capital and capital adequacy

Applicability of Implementation

The Company is subject to measurement and capital adequacy requirements. In addition, the Company is consolidated by Bank Hapoalim to which these requirements also apply. The Company has consolidated subsidiaries, as follows: Isracard Mimun, Isracard Nechasim, Europay, Tzameret Mimunim and Global Factoring.

In general, the capital requirement of the Company is based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives – "Capital Measurement and Adequacy" 299, 201-211. However, as at December 31, 2015, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Shareholders' equity, Tier 1 capital for 2015 amounted to NIS 2,457 million, compared with NIS 2,201 million in the corresponding period last year, an increase of 11.6%.

Overall capital for 2015 amounted to NIS 2,583 million, compared with NIS 2,311 million in the corresponding period last year, an increase of 11.8%.

Risk assets in respect of credit for 2015 amounted to NIS 10,401 million, compared with NIS 9,803 million in the corresponding period last year, an increase of 6.1%.

Risk assets in respect of market risk for 2015 amounted to NIS 18 million, compared with NIS 8 million in the corresponding period last year, an increase of 125.0%.

Risk assets in respect of operating risk for 2015 amounted to NIS 1,905 million, compared with NIS 1,865 million in the corresponding period last year, an increase of 2.1%.

The capital to risk components ratio for 2015 amounted to 21.0%, compared with 19.8% in the corresponding period last year.

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

Table 5: Capital adequacy (1)

1. Capital for capital ratio computation purposes

	December 31	
	2015	**2014**
	NIS in millions	
Tier 1 shareholders' equity and Tier 1 capital after deductions	2,457 (4)	2,201 (3)
Tier 2 capital	126	110
Total overall capital	**2,583**	**2,311**

2. Weighted balances of risk assets

	December 31	
	2015	**2014**
	NIS in millions	
Credit risk	10,401	9,803 (3)
Market risks	18	8
Operating risk	1,905	1,865
Total overall capital	**12,324**	**11,676**

3. Capital to risk elements ratio

	December 31	
	2015	**2014**
	NIS in millions	
Overall capital ratio and Tier 1 capital ratio		
Capital for purposes of computing capital ratio (NIS in millions)	2,583	2,311 (3)
Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio	19.9%	18.9% (3)
Overall capital to risk elements ratio	21.0%	19.8% (3)
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (2)	9.0%	9.0%
Minimum overall capital ratio required by the Banking Supervision Department (2)	12.5%	12.5%

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

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

(3) Restated in light of the retroactive implementation of directives of the Banking Supervision Department regarding the capitalization of software costs. For additional details see note 2(C)4 to the financial statements.

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

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

The Company's capital adequacy targets are as follows:

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

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

Capital Management

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

- Ensure the existence of a capital base serving as a buffer against unexpected risks to which the Company is exposed, support business strategy, and allow compliance at any time with the minimum regulatory capital requirement (relating to the mix and amount of capital backing the strategy and risks of the Company).

- Address future developments in the capital base and capital requirements.

- Strive for efficient allocation of capital during the ordinary course of business of the Company.

Guiding Principles in Capital Management

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

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

Capital adequacy

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

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

Liquidity coverage ratio

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

The Company applies the liquidity risk management policy in accordance with Proper Conduct of Banking Management Regulation no. 342, including compliance with the minimum liquidity ratio, which is intended to ensure that the Company has sufficient high quality liquid assets within a time framework of 30 days in stress scenarios. The stress scenarios include a specific shock to the Company, a systemic shock or a combination of the two.

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

Leverage ratio

In April 2015, the Banking Supervision Department published the provisions of Proper Conduct of Banking Management Regulation No 218 "Leverage Ratio " (hereinafter: "the provision") .The provision established a simple, transparent, non risk-based leverage ratio, which will act as a supplementary and reliable measurement to the risk-based capital requirement and which is intended to restrict the accumulation of leverage in the banking corporation and credit card company (hereinafter: "banking corporation"). The leverage ratio is expressed in percentage terms, and is defined as the ratio between the measurement of capital and the measurement of exposure. For further details, see Note 22B to the financial statements.

Dividend distribution

The Company has not distributed dividends to its shareholders since April 2008.

Operating Segments

General

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

Seasonality

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

The Credit-Card Issuance Segment

The Company issues credit cards to its customers (credit-card holders). The credit cards are used as a means of payment to merchants 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 and operates Isracard (a private brand), MasterCard, and Visa credit cards. The cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and to withdraw cash, for local and international use. The bank cards issued by the Company are distributed to account-holders in banks, which the Company and Europay have agreements with. 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.

The Company also issues and operates a variety of products and services, including revolving credit cards, allowing cardholders to determine the terms of repayment; fuel cards and refueling devices; gift cards; specialized purchasing cards; rechargeable cards; various credit plans based on Isracredit; various types of all-purpose loans based on credit limits of credit cards; loans, for purchasing second-hand vehicles through a related company; various options for spreading payments; and provides information and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment. The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer; (2) card fees – payments collected from cardholders according to a list of charges, varying based on the type of card and on various promotional campaigns; (3) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS and (4). other sundry commissions in accordance with the published tariff-list.

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

For details regarding the segmentation of income from credit-card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, the operation of sales service center (internal and external), direct mail, salespeople, the Company's website, and more.

Within the activity of the customer clubs, the Company routinely enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services in a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as 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., cards of retail chains, and more. The Company operates a website at the address: www.isracard.co.il, designed for cardholders, among others. The website includes information about products and services offered to cardholders, the Company's rates, special offers, and benefits.

As part of the enhancement of its communication with its cardholders and enrichment of the range of benefits offered to them, the Company has launched a new benefit plan, the Tracks program, which allows customers to receive benefits according to their areas of interest. The goal of this program is to make the benefits offered to customers more relevant, while building a community of customers with which regular communications can be maintained. The program included the launch of an upgraded website and a mobile application that offer simple, easy access to the full range of benefits of the Company.

The Company strives to maintain leadership in the digital arena and in the area of mobile payments. As part of its activity in this area, the Company has launched several innovative products: Pay Pass for mobile payments, based on NFC technology, using stickers or credit cards with the ability to transmit to the cash register; mobile payment through the Isracard application, for a range of merchants, without the use of a physical credit card; PayWare Sail, for accepting credit-card payments via smartphone; and MasterPass, secured payment on the trade website, Israel Railways – purchase of train tickets via the Internet, etc.

In addition, the Company places emphasis on an improvement of the interfaces vis-à-vis the customer and offers the "Isracard-at-a-Click" service, an innovative chat service on the Internet and an application with a smart digital representative which allows the receipt of complete information on transactions, benefits to credit card holders and making contact with the customer service. In addition, it launched the "Receipt of Service by SMS" service.

Profit and profitability – Issuance sector

Net profit of the sector amounted NIS 136 million, compared with NIS 150 million in 2014, a decrease of 9.3%.

The rate of return of net profit to average capital amounted to 9.1%, compared with 10.8% in 2014.

Development of income and expenses

Income of the sector amounted to NIS 1,096 million, compared with NIS 1,067 million in 2014, an increase of 2. 7%.

Income from commissions amounted NIS 1,075 million, compared with NIS 1,024 million in 2014, an income of 5.0%.

Net interest income amounted to NIS 10 million, compared with NIS 15 million in 2014, a decrease of 33.3%.

Other income amounted to NIS 11 million, compared with NIS 28 million in 2014, a decrease 60.7%.

Expenses of the segment, before payments to banks amounted to NIS 546 million, compared with NIS 494 million in 2014, an increase of 10.5%

Expenses of the segment, including payments to banks amounted to NIS 912 million, compared with NIS 864 million in 2014, an increase of 5.6%.

Expenses in respect of credit losses amounted to NIS 6 million, compared with NIS 4 million in 2014.

Operating expenses amounted to NIS 330 million, compared with NIS 305 million in 2014, an increase of 8.2%.

Selling and marketing expenses amounted to NIS 176 million, compared with NIS 151 million in 2014, an increase of 16.6%.

General and administrative expenses amounted to NIS 34 million, similar to 2014.

Payments to banks amounted to NIS 366 million, compared with NIS 370 million in 2014, a decrease of 1.1%.

The income to expenses ratio, before payments to banks reached 49.8%, compared with 46.3% in 2014.

Profit for the sector before taxes amounted NIS 184 million, compared with NIS 203 million in 2014, a decrease of 9.4%.

The provision for tax on profit in the sector amounted to NIS 48 million, compared with NIS 53 million, a decrease of 9.4%.

Customers – Cardholders

The credit cards issued by the Company service customers in various segments, mostly private customers. As of the date of the report, there are no holders of credit card (bank or non-bank), whose volume of transactions made with the Company's credit cards constitutes 10% of more of the total volume of transactions in the Company's credit cards in 2015.

Clearing segment

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

Products and services

As a clearer of the brands "Isracard" (private brand) Mastercard and Visa, the Company has agreements with various merchants, under which it clears transaction vouchers, including domestic transactions and transactions by incoming tourists, executed via credit cards (issued by the Company and/or by other credit-card companies) with merchants with which the Company has entered into clearing agreements. In consideration for the clearing services, the Company mainly collects a merchant fee.

In addition to the clearing services offered by the Company, the Company also offers flexible crediting dates and options for payment in installments. In addition, the Company also offers services, such as information regarding credits of the merchant and other segmented information, corporate cards and joint advertising campaigns, all with a high quality of service backed by advanced technological infrastructures. In addition, the Company offers clearing of gift cards which it issues, as well as an option for secure clearing via smartphone (Payware).

In 2015, a number of services and adapted products were developed and launched for the needs of business customers, such as: (a) "My Internet Store" (cooperation with a third party) which enables merchants to create a full Internet sales website, (b) a MasterPass product – a means of payment for Internet transactions which allows the rapid execution of a payment, secured by entering only a username and password, without entering full credit card details, (c) a "Tashlum-Gan" product which enables credit card holders to execute a payment to an educational institution via credit card, etc.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants are allocated to the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, which are allocated to the Issuance Segment, and net interest income attributed to the segment. The main expenses associated with the Clearing Segment include expenses for recruitment and retention of merchants, joint advertising with merchants, clearing of sales vouchers, and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 19 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Marketing and Sales

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

The Company's key objectives in its marketing activity in this area are: (1) to retain merchants as customers by strengthening its ties with the merchants and providing marketing, financial, and operational services, including the incorporation of coupons and personal messages in debit statements for cardholders, information regarding past and future credits of the merchant and other segmented information, advertising campaigns and unique marketing information, benefits, and programs at a high level of service; (2) to strengthen the Company's image; and (3) to recruit new merchants and expand the Company's operations through new business activities, including the granting of credit. The Company operates a unique Internet site for business customers, on: www.isracard,co.il, including, among other things, financial information regarding merchants' credits, expanded business information and enabling the submission of credit applications.

Profit and Profitability – Clearing segment

The net profit of the segment amounted to NIS 30 million, compared with NIS 56 million in 2014, a decrease of 46.4%.

The rate of return on net profit to average capital amounted 14.9%, compared to 27.2% in 2014.

Development of income and expenses

Income of the segment amounted to NIS 284 million, compared with NIS 313 million in 2014, a decrease of 9.3%.

Income from commissions amounted to NIS 283 million, compared with NIS 315 million in 2014, a decrease of 10.2%.

Interest income (expenses), net, amounted to an expense of NIS 1 million compared with income of NIS 1 million in 2014.

Other income (expenses) amounted to income of NIS 2 million, compared to an expense of NIS 3 million in 2014.

Expenses of the segment amounted to NIS 240 million, compared with NIS 234 million in 2014, an increase of 2.6%.

Expenses in respect of credit losses amounted to less than NIS 0.5 million, compared to NIS 3 million in 2014,

Operating expenses amounted to NIS 167 million, compared with NIS 151 million in 2014, an increase of 10.6%.

Selling and marketing expenses amounted to NIS 47 million, compared with NIS 53 million in 2014, a decrease of 11.3%.

General and administrative expenses amounted to NIS 20 million, compared with NIS 21 million, a decrease of 4.8%.

The ratio of expenses to income in the segment reached 84.5%, compared to 74.8% in 2014.

Profit for the segment before taxes amounted to NIS 44 million, compared with NIS 79 million in 2014, a decrease of 44.3%

The provision for taxes in the segment amounted to NIS 14 million, compared with NIS 23 million in 2014, a decrease of 39.1%.

Customers

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

Financing segment

The Financing Segment serves the customers of the Company and of other companies, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability.

Products and services

The Company offers financial services to merchants, including loans, discounting of credit-card sales vouchers by the Company and by Tzameret Mimunim Ltd., advance payments, credit facilities for business cards, purchasing cards and B2B, and receivables discounting services. In addition, the Company offers credit to private customers, including revolving credit, which allows cardholders to determine the repayment terms; special-purpose loans; various credit plans based on Isracredit; various general-purpose loans based on credit-card credit facilities; vehicle purchasing loans for second-hand vehicle purchases through Kidum; and loans that do not require a card, all at a high level of service.

Segmentation of Income from Products and Services

All income and expenses attributed to the interest-bearing credit activity of the Company were assigned to the Financing Segment, including discounting, advance payments, receivables discounting, revolving credit, and loans of various types. For details regarding the segmentation of income from transactions of the Financing Segment, see Note 4 to the Financial Statements

Marketing and Sales

Sales and marketing activities of the Company in the Financing Segment are based on the principle of focusing on the needs of merchants and on the changing requirements of private cardholding and non-cardholding customers. The Company operates on several levels: joint activities with customer clubs, associated companies, and business partners in granting credit, including marketing and sales promotion, among other means, through large-scale marketing campaigns, advertising in newspapers, on television, on the radio, via mobile communications, and on the Company's website, as part of its commercial activity with the merchants.

Profit and profitability – Financing segment

Net profit of the segment amounted to NIS 67 million, compared with NIS 54 million in 2014, an increase of 24.1%.

Rate of return on net profit to average capital amounted to 11.5%, compared with 12.7% in 2014.

Development of income and expenses

Income of the segment amounted to NIS 169 million, compared with NIS 131 million in 2014, an increase of 29.0%.

Interest income, net, amounted to NIS 165 million, compared with NIS 128 million in 2014, an increase of 28.9%.

Other income amounted to NIS 4 million, compared with NIS 2 million in 2014, an increase of 100%.

Expenses of the segment amounted to NIS 68 million, compared with NIS 52 million, an increase of 30.8%.

Expenses in respect of credit losses amounted to NIS 26 million, compared with NIS 13 million in 2014, an increase of 100%. The increase is primarily attributable to an increase in consumer credit balances and debt balances classified as under special supervision.

Operating expenses amounted to NIS 24 million, compared with NIS 21 million in 2014, an increase of 14.3%.

Selling and marketing expenses amounted to NIS 11 million, similar to 2014.

General and administrative expenses amounted to NIS 7 million, similar to 2014.

The ratio of income to expenses in the segment reached 40.2% compared with 39.7% in 2014.

Profit of the segment before taxes amounted to NIS 101 million, compared with NIS 79 in 2014, an increase of 27.8%.

The provision for taxes on profit in the segment amounted to NIS 34 million, compared with NIS 25 million in 2014, an increase of 36%.

Customers

The Company's customers in the Financing Segment include numerous merchants and private customers.

Private customers are segmented by risk rating assigned on the basis of an internal risk-rating model of the Company which is designed for private customers. The group of customers of this segment in the business sector consists of merchants in a broad range of industries who use the Company's clearing services, as well as non-clearing customers who use one of the various types of corporate cards of the Company, or customers who use invoice discounting services provided through the subsidiary, Global Factoring.

These customers are also segmented by risk rating assigned on the basis of an internal risk-rating model of the Company which is designed for corporate customers.

Other Segment

This segment includes all of the Company's other activities which do not belong to the issuance, clearing and/or financing segments, each of which does not amount to a reportable segment, including operation of the credit card system which the customer provides to a fellow subsidiary, which issues and clears American Express-type credit cards; the activities of Isracard Nechasim; and the Company's activity in the area of securing the payment for discounting cheques, the clearing of Visa-type travelers' cheques previously issued, and income from the sale of the shares of MC.

Profit and profitability - Other segment

Net profit of the segment amounted to NIS 18 million, compared with NIS 32 million in 2014, a decrease of 43.8%, primarily attributable to the profit in respect of the sale of shares in MC in 2014.

The rate of return on the net profit to average capital amounted to 42.7%, compared with a rate in excess of 100% in 2014.

Development of income and expenses

Income of the segment amounted NIS 41 million, compared with NIS 52 million in 2014, a decrease of 21.2%, mainly due to the sale of shares in MC in the corresponding period last year as stated in the item "other income" below.

Other income amounted to NIS 40 million, compared with NIS 50 million in 2014, a decrease of 20.0%. Most of the decrease is due to income in respect of the sale of shares in MC amounting to NIS 12 million in 2014.

Expenses of the segment amounted to NIS 9 million, compared with NIS 5 million in 2014, an increase of 80.0%.

The ratio of income to expense in the segment amounted to 22.0%, compared with 9.6% in 2014.

Profit of the segment before taxes amounted to NIS 32 million, compared with NIS 47 million in 2014, a decrease of 31.9%.

The provision for taxes on profit of the segment amounted to NIS 12 million, compared with NIS 15 million in 2014, a decrease of 20.0%.

Activity of principal investee companies

- **Isracard Mimun Ltd.** (hereinafter: “**Isracard Mimun**”) was established in 2004, and is a wholly-owned and controlled subsidiary of the Company. Isracard Mimun provides credit to holders of non-bank credit cards in the Isracard Group, extends loans to merchants clearing transactions through the Group, and provides non-credit-card consumer credit.

  The contribution of the net profit of Isracard Mimun to the Company's results of operation amounted to NIS 51 million, compared to NIS 36 million in the corresponding period last year.

  The Company's total investments in Isracard Mimun at December 31, 2015 amounted to NIS 156 million, compared with NIS 104 million in 2014.

- **Tzameret Mimunim Ltd.** (hereinafter: "**Tzameret Mimunim**") was established and incorporated in 1999, and provides credit-card discounting services and loans to merchants. Tzameret Mimunim and is a wholly owned and controlled subsidiary of the Company.

  The contribution of the net profit of Tzameret Mimunim to the Company's results of operation amounted to NIS 6 million, similar to the corresponding period last year.

  The Company's total investments in Tzameret Mimunim at December 31, 2015 amounted to NIS 110 million, compared with NIS 104 million in 2014.

Review of risks

General description of the 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.

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

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

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

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

Liquidity risk: An existing or future risk to the Company's income and capital deriving from impairment in the ability to raise 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.

b. Risk appetite

Risk appetite expresses the level of the corporation's preparedness, as reflected in its decisions, to assume risks as part of its business activity. The appetite for risk expresses the Company's desire to avoid risks and relates to the maximum loss it is prepared to absorb from its 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's business and strategic goals and its risk capacity and is approved by management and the Board of Directors.

Risk management principles

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 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.
- Every business unit and/or operational unit is responsible for the management of the risks created as a part of its day-to-day activity, including its qualification to make decisions in relation to the assumption of risks (subject to exposure restrictions).
- The organizational structure of the risk management and the risk management processes will give appropriate expression to the Company's corporate governance

principles, and will contribute, in the best way, to the existence of a chain of effective supervision over their activity, subject to the provisions of the law.

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

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

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

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

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

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

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

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

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

Use of stress scenario tests

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

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

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

The main uses of stress tests are:

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

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

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

Credit risk

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

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

Pursuant to the directives of the Banking Supervision Department regarding the measurement and disclosure of impaired debts, credit risk and provision for credit losses and the amendment of directives regarding the treatment of problem debts, since January 1, 2014, the Company has applied the provisions of Proper Conduct of Banking Management 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 routine 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 circles 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 circle 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 circle 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 circle 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 circle of control includes the Internal Audit, which is an independent factor, reporting to the Board of Directors and conducting periodic and routine audit on the method of risk management and the correctness of procedures carried out by the various factors in the Company. The Internal Audit operates in accordance with the audit plan approved by the Audit Committee of the Board of Directors, and submits audit reports for its review, as required by the provisions of the relevant regulations.

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

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

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

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

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

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

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

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

Principles of Credit Concentration Risk Management:

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

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

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

Determination of risk rating for customer according to statistical models:

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

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

The models may be divided as follows:

AS (Application Scoring) model for new customers;

BS (Behavior Scoring) model – a behavioral model for customers of the Company;

SME (Small-Medium Enterprise) model – a model for corporate clients.

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

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

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

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 factors in the Company, particularly the business line managers.

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

Determination of hierarchy of authorities in the extension of credit

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

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

Problematic credit risk and non-performing assets

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

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

Table 6 - Problematic credit risk and nonperforming assets

	Balance as at December 31, 2015	Balance as at December 31, 2014
	Reported amounts In NIS millions	
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	15	12
Inferior credit risk	12	5
Credit risk under special supervision (4)	143	82
Total problematic credit risk	**170**	**99**
Of which: Unimpaired debts in arrears of 90 days or more	-	-
2. Nonperforming assets (2)		
Impaired debts	15	12
Total nonperforming assets (2)	15	12

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

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

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

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

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit (2)	Debtors in respect of credit cards	Credit (2)	Credit risk under bank guarantee and other (3)	Total
Balance of impaired debts as of December 31, 2014	**4**	**2**	**-***	**1**	**-**	**7**
Balance of debts classified as impaired	2	1	(-*)	4	1	8
Balances of debts written off classified as impaired	-	-	-	-	-	-
Balance of impaired debts written off	(2)	(1)	(-*)	(-*)	-	(3)
Balance of impaired debts collected	(3)	(2)	(-*)	-(4)	-	(5)
Balance of impaired debts as of December 31, 2015	**1**	**-***	**-***	**5**	**1**	**7**

* Amount less than NIS 0.5 million.

** Individually examined.

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

(2) Interest-bearing credit – This credit includes credit transactions, transactions in revolving credit cards, credit to credit-card holders, credit which is not to credit-card holders and other transactions.

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

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

Table 8 – Risk and credit metrics

		December 31	
		2015	2014
		In percent	
A.	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit card activity	0.10	0.08
B.	Balance of unimpaired debtors in respect of credit card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit card activity	-	-
C.	Problematic credit risk as a percentage of total credit risk	0.33	0.20
D.	Credit loss expenses as a percentage of the average balance in respect of credit card activity	0.22	0.14
E.	Net write-offs in respect of debts in respect of credit card act as a percentage of the average balance of debtors in respect of credit card activity	0.11	0.08
F.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of debtors in respect of credit card activity	0.74	0.70
G	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors individually examined in respect of credit-card activity	- *	- *
H.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity with the addition of the balance of debtors in respect of credit card activity which is in arrears for 90 days or more.	- *	- *
I.	Net write-offs for debtors in respect of credit card activity as a percentage of the allowance for credit losses for debtors in respect of credit card activity	14.29	11.11

* More than 100%.

Credit quality

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

Credit quality in respect of exposures to borrower groups

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

Credit exposure to foreign financial institutions and foreign countries

The Company has immaterial exposure to the international organizations MasterCard International Incorporated, MasterCard Europe, Visa International, and Visa Europe with respect to balances of transactions executed by tourists in Israel, net of the balances of transactions executed by Israelis overseas in respect of which the Company has not yet been credited by the international organizations.

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

Market risk

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

The Company business activity is exposed 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 2014. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in interest rates, the CPI, foreign exchange rates, 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 risk management document.

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

The Company manages market risks based on a comprehensive, integrative view, for the Company and its subsidiaries on a consolidated basis, ensuring the optimal utilization of the capital and assets of each of the companies in the Group, in order to achieve their strategic and business objectives while maintaining their stability. Market risks at the Company are managed by the Head of Finance and Administration.

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

Details of the various risks are as follows:

A. Linkage Base Risk

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

The Company applies a comprehensive policy for the management of market risks in Israeli and foreign currency.

B. Interest-Rate Exposure

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

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

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

C. Exposure to the value of securities

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

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. The Company executes IRS and FRA transactions, from time to time, in order to hedge interest-rate exposures.

Interest exposure management

Exposure is managed 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.

The Company uses IRS (interest rate swap) and FRA (forward rate agreement) hedging instruments for economic hedges of interest-rate positions to which it is exposed. These contracts are purchased in order to reduce the risk that unexpected changes in interest rates may damage the fair value of the assets and liabilities of the Company, and consequently its financial condition.

As at December 31, 2015, there were three IRS transactions outstanding, with nominal values of NIS 25 million, NIS 30 million and NIS 5 million, respectively.

Foreign Currency Exposure Management

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

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

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

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

Chief Risk Officer

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

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

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

Table 9 - Fair value of financial instruments of the Company and its consolidated subsidiaries, excluding non-monetary items

	December 31, 2015				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	15,193	94	131	34	15,452
Amounts receivable in respect of derivative financial instruments	60	-	-	-	60
Financial liabilities	13,079	62	126	22	13,289
Amounts payable in respect of derivative financial instruments	60	-	-	-	60
Net fair value of financial instruments	**2,114**	**32**	**5**	**12**	**2,163**

	December 31, 2014				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	14,347***	86	110	29	14,572
Amounts receivable in respect of derivative financial instruments	55	-	-	-	55
Financial liabilities	12,498***	58	118	26	12,700
Amounts payable in respect of derivative financial instruments	55	-	-	-	55
Net fair value of financial instruments	**1,849**	**28**	**(8)**	**3**	**1,872**

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

** Including Israeli currency linked to foreign currency.

*** Reclassified.

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

	December 31, 2015						
	Net fair value of financial instruments after the effect of changes in interest rates*					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate corresponding increase of 1%	2,111	32	5	12	2,160	(3)	(0.1)
Immediate corresponding increase of 0.1%	2,114	32	5	12	2,163	-	-
Immediate corresponding decrease of 1%	2,117	32	5	12	2,166	3	0.1

	December 31, 2014						
	Net fair value of financial instruments after the effect of changes in interest rates*					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate corresponding increase of 1%	1,847	28	(8)	3	1,870	(2)	(0.1)
Immediate corresponding increase of 0.1%	1,849	28	(8)	3	(1,872)	-	-
Immediate corresponding decrease of 1%	1,851	28	(8)	3	1,874	2	0.1

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

** Including Israeli currency linked to foreign currency.

*** Reclassified.

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

Reported amounts

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration(3)
									%	**%**
Unlinked Israeli currency										
Financial assets:										
Financial assets*	9,724	2,547	2,431	481	8	-	2	15,193	1.72%	0.16
Derivative financial instruments	5	55	-	-	-	-	-	60		0.09
Total fair value	9,729	2,602	2,431	481	8	-	2	15,253		**0.16
Financial liabilities:										
Financial liabilities*	8,060	2,434	2,155	343	9	1	77	13,079	1,26%	0.16
Derivative financial instruments	-	-	55	5	-	-	-	60		0.51
Total fair value	8,060	2,434	2,210	348	9	1	77	13,139		**0.16
Net financial instruments										
Exposure to changes in interest rates in the segment	1,669	168	221	133	(1)	(1)	(75)	2,144		
Accumulated exposure in the segment	1,669	1,837	2,058	2,191	2,190	2,189	2,114			

Reported amounts

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration
									%	**Years**
Linked Israeli currency										
Financial assets:										
Financial assets*	18	28	41	4	3	-	-	94	0.25	0.44
Total fair value	18	28	41	4	3	-	-	94		**0.44
Financial liabilities:										
Financial liabilities*	12	20	30	-	-	-	-	62	0.35%	0.26
Total fair value	12	20	30	-	-	-	-	62		**0.26
Net financial instruments										
Exposure to changes in interest rates in the segment	6	8	11	4	3	-	-	32		
Accumulated exposure in the segment	6	14	25	29	32	32	32			

* Excluding balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.

** Weighted according to the fair value of the effective average duration.

General notes:

This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 27A to the financial statements.

Effective average duration of the group of financial instruments represents an approximation of the change in the percentages in the fair value of the group of financial instruments that will result from a mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

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

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets*	126	15	12	-	-	-	12	165	0.68	0.09
Total fair value	126	15	12	-	-	-	12	165		**0.09
Financial liabilities:										
Financial liabilities*	112	16	7	-	-	3	10	148	1.69	0.24
Total fair value	112	16	7	-	-	3	10	148		**0.24
Net financial instruments										
Exposure to changes in interest rates in the segment	14	(1)	5	-	-	(3)	2	17		
Accumulated exposure in the segment	14	13	18	18	18	15	17			

Overall exposure to interest rate changes										
Financial assets:										
Financial assets*	9,868	2,590	2,484	485	11	-	14	15,452	1.69	0.16
Derivative financial instruments	5	55	-	-	-	-	-	60		0.09
Total fair value	9,873	2,645	2,484	485	11	-	14	15,512		**0.16
Financial liabilities:										
Financial liabilities*	8,184	2,470	2,192	343	9	4	87	13,289	1.26	0.16
Derivative financial instruments	-	-	55	5	-	-	-	60		
Total fair value	8,184	2,470	2,247	348	9	4	87	13,349		**0.16
Net financial instruments										
Exposure to changes in interest rates in the segment	1,689	175	237	137	2	(4)	(73)	2,163		
Accumulated exposure in the segment	1,689	1,864	2,101	2,238	2,240	2,236	2,163			

* Excluding balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.

** Weighted according to the fair value of the effective average duration.

General notes:

This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 27A to the financial statements.

Effective average duration of the group of financial instruments represents an approximation of the change in the percentages in the fair value of the group of financial instruments that will result from a mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

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

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Unlinked Israeli currency										
Financial assets:										
Financial assets*	* 8,906	2,585	2,364	467	5	-	20	14,347	1.95%	0.16
Derivative financial instruments	25	30	-	-	-	-	-	55		0.07
Total fair value	8,931	2,615	2,364	467	5	-	20	14,402		***0.16
Financial liabilities:										
Financial liabilities*	*7,666	2,287	2,107	402	7	2	27	12,498	1.35%	0.17
Derivative financial instruments	-	-	25	30	-	-	-	55		0.97
Total fair value	7,666	2,287	2,132	432	7	2	27	12,553		***0.17
Net financial instruments										
Exposure to changes in interest rates in the segment	1,265	328	232	35	(2)	(2)	(7)	1,849		
Accumulated exposure in the segment	1,265	1,593	1,825	1,860	1,858	1,856	1,849			

Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration
									%	**Years**
Linked Israeli currency										
Financial assets:										
Financial assets*	16	25	37	5	3	-	-	86	0.52	0.49
Total fair value	16	25	37	5	3	-	-	86		***0.49
Financial liabilities:										
Financial liabilities*	12	19	27	-	-	-	-	58	1.19	0.25
Total fair value	12	19	27	-	-	-	-	58		***0.25
Net financial instruments										
Exposure to changes in interest rates in the segment	4	6	10	5	3	-	-	28		
Accumulated exposure in the segment	4	10	20	25	28	28	28			

* Reclassified

** Excluding balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.

*** Weighted according to the fair value of the effective average duration.

General notes:

This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 27A to the financial statements.

Effective average duration of the group of financial instruments represents an approximation of the change in the percentages in the fair value of the group of financial instruments that will result from a mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

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

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets*	109	20	12	-	-	-	(2)	139	0.35	0.09
Total fair value	109	20	12	-	-	-	(2)	139	-	***0.09
Financial liabilities:										
Financial liabilities*	104	15	3	-	-	4	18	144	1.86	0.25
Total fair value	104	15	3	-	-	4	18	144		***0.25
Net financial instruments										
Exposure to changes in interest rates in the segment	5	5	9	-	-	(4)	(20)	(5)		
Accumulated exposure in the segment	5	10	19	19	19	15	(5)			
Overall exposure to interest rate changes										
Financial assets:										
Financial assets**	*9,031	2,630	2,413	472	8	-	18	14,572	1.91	0.16
Derivative financial instruments	25	30	-	-	-	-	-	55		0.07
Total fair value	9,056	2,660	2,413	472	8	-	18	14,627		***0.16

Financial liabilities:										
Financial liabilities**	*7,782	2,321	2,137	402	7	6	45	12,700	1.35	0.17
Derivative financial instruments	-	-	25	30	-	-	-	55		0.97
Total fair value	7,782	2,321	2,162	432	7	6	45	12,755		***0.17
Net financial instruments										
Exposure to changes in interest rates in the segment	1,274	339	251	40	1	(6)	(27)	1,872		
Accumulated exposure in the segment	1,274	1,613	1,864	1,904	1,905	1,899	1,872			

* Excluding balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.

** Weighted according to the fair value of the effective average duration.

General notes:

This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 27A to the financial statements.

Effective average duration of the group of financial instruments represents an approximation of the change in the percentages in the fair value of the group of financial instruments that will result from a mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

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 finances its day-to-day operations through short-term daily bank (on-call), loans from a fellow subsidiary and cash flows from operating activities.

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

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

For further details regarding assets and liabilities according to linkage basis and according to maturity dates, see Notes 25 and 26 to the financial statements.

Operating Risk

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

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

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

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 risk s, including the following goals:

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

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

Other risks

Data security risks and cyber events

In September 2015, the Bank of Israel published Proper Conduct of Banking Management 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 profitability, This risk is in essence forward-looking, as it relates to the risk inherent in potential significant changes in legislation and regulations.

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

The process of identifying regulatory risk includes two main aspects:

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

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

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

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

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

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

Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

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

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

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

Reputational risk

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

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

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

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

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

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

Strategic risk

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

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

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

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

The management, via the Strategic Unit Manager, is responsible for assessing the exposure to strategic risks as they have been identified in the risk identification processes and a 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.

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

Table 12 – Discussion of risk factors

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

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

Accounting policy and critical estimates, controls and procedures

Accounting policy and critical estimates

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

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

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

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

Allowance for Credit Losses

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

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

Contingent Liabilities

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

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

Employee rights

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

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

The Company has not attached to the financial statements the actuarial assessments on which there are based, for the following reasons:

- Most of the amount is included in the actuarial opinion submitted to Bank Hapoalim, in which all of the employees of Bank Hapoalim loaned to the Company are included. This opinion is attached to the financial statements of Bank Hapoalim.

- The relevant amounts are not material according to the definitions for the purpose of attaching a valuation opinion.

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 Wexler**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2016

Certification of the Chief Executive Officer

I, Ron Wexler, hereby declare that:

1. I have reviewed the annual report of Isracard 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]; and

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

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

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

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

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

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

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

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

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

Dr. Ron Wexler

Chief Executive Officer

Tel Aviv, February 25, 2016

Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Isracard 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]; and

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

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

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

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

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the

Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most current assessment of the internal control over financial reporting:

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

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

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

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

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 25, 2016

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

The Board of Directors and the Management of Isracard Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal controls over financial reporting (as defined in the Public Reporting Directives concerning the "Report of the Board of Directors and Management"). The system of internal controls at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company with regard to the adequate preparation and presentation of the financial statements, which are published in accordance with generally accepted accounting principles and the directives and guidelines of the Banking Supervision Department. 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 controls over financial reporting as at December 31, 2015, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 pages 107 – 108. 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	**Ron Wexler**	**Sigal Barmack**
Chairman of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 25, 2016

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2015

ISRACARD

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Somekh Chaikin

Auditors' Report to the Shareholders of Isracard Ltd. according to the Public Reporting Directives of the Supervisor of Banks on Internal Controls over Financial Reporting

We have audited the internal controls over financial reporting of Isracard Ltd. and its subsidiaries (hereinafter, jointly: "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 (United States) regarding audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the consolidated and separate balance sheets of the Company as at December 31, 2015 and 2014, and for each of the three years ended on December 31, 2015. Our report dated February 25, 2016, included an unqualified opinion on these financial statements, while drawing attention to that stated in Note 23.C.2 regarding regulatory initiatives and Note 23.D regarding petitions for the approval of certain claims as class-action suits against the Company.

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

Tel Aviv, February 25, 2016

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

BDO

ZIV HAFT

IS A MEMBER OF BDO

Somekh Chaikin

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

We have audited the accompanying balance sheets of Isracard Ltd. (hereinafter: "the Company") as at December 31, 2015 and 2014 and the consolidated balance sheets as at those dates, and the consolidated and separate statements of profit and loss, statements of comprehensive income, 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 audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973, and 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the consolidated and separate financial position of the Company as at December 31, 2015 and 2014, and the consolidated and separate 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 23.C.2 regarding regulatory initiatives and Note 23.D regarding petitions for the approval of certain claims as class action suits against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding 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

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 25, 2016

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

ZIV HAFT

IS A MEMBER OF BDO

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	Consolidated			The Company		
		For the year ended December 31			For the year ended December 31		
		2015	2014	2013	2015	2014	2013
Income							
From credit-card transactions	3	1,359	1,342	1,281	1,361	1,344	1,283
Net interest income	4	174	144	133	16	33	40
Other income	5	57	77	100	52	73	95
Total income		**1,590**	**1,563**	**1,514**	**1,429**	**1,450**	**1,418**
Expenses (income)							
In respect of credit losses	12	32	19	7	6	7	(1)
Operating expenses	6	529	481**	506**	504	463**	492**
Sales and marketing expenses	7	235	216	213	230	210	208
General and administrative expenses	8	61	63	72	55	57	65
Payments to banks	23G	372	376	335	372	376	335
Total expenses		**1,229**	**1,155**	**1,133**	**1,167**	**1,113**	**1,099**
Profit before taxes		**361**	**408**	**381**	**262**	**337**	**319**
Provision for taxes on profit	9	108	116**	95	71	90**	76
Profit after taxes		**253**	**292**	**286**	**191**	**247**	**243**
The Company's share in profits (losses) after the effect of tax of investee companies (in consolidated: associates)		(2)	(*-)	*-	60	45	43
Net profit		**251**	**292**	**286**	**251**	**292**	**286**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)		**342**	**396**	**390**	**342**	**396**	**390**
Number of common shares used in calculation		735,124	735,124	735,124	735,124	735,124	735,124

* Amount less than NIS 0.5 million.

** Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below

Dan Koller	Ron Wexler	Sigal Barmack
Chairman of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 25, 2016

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

Statements of Comprehensive Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Net profit	**251**	**292***	**286***	**251**	**292***	**286***
Other comprehensive income (loss) before taxes:						
Adjustments for presentation of securities available for sale at fair value, net	1	(12)	(22)	1	(12)	(22)
Adjustments for liabilities in respect of employee rights (1)	(3)	-	-	(3)	-	-
Other comprehensive income (loss) before taxes	**(2)**	**(12)**	**(22)**	**(2)**	**(12)**	**(22)**
Effect of related tax	1	3	5	1	3	5
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(1)**	**(9)**	**(17)**	**(1)**	**(9)**	**(17)**
Comprehensive income attributed to shareholders of the Company	**250**	**283**	**269**	**250**	**283**	**269**

* Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below

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

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

Balance Sheets

Reported amounts

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2015	2014	2015	2014
Assets					
Cash on hand and deposits with banks	11	69	248	64	243
Debtors in respect of credit-card activity	12	15,223	14,192*	12,459	12,365*
Allowance for credit losses		(112)	(99)	(43)	(45)
Debtors in respect of credit-card activity, net		**15,111**	**14,093**	**12,416**	**12,320**
Securities	13	19	20	19	20
Investments in investee companies (in consolidated: in associates)	14	1	3	357	307
Buildings and equipment	15	252	265**	165	175**
Other assets	16	441	417**	3,794	2,768**
Total assets		**15,893**	**15,046**	**16,815**	**15,833**
Liabilities					
Credit from banking corporations	17	323	28	323	28
Creditors in respect of credit-card activity	18	12,126	12,015*	13,115	12,859*
Other liabilities	19,23	988	802	921	745
Total liabilities		**13,437**	**12,845**	**14,359**	**13,632**
Contingent liabilities and special commitments	23				
Capital attributed to shareholders of the Company		2,456	2,201**	2,456	2,201**
Total capital		**2,456**	**2,201**	**2,456**	**2,201**
Total liabilities and capital		**15,893**	**15,046**	**16,815**	**15,833**

* Reclassified.

** Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	Paid-up share capital	Capital reserves		Total paid-up share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total capital
		Premium on shares	From a controlling shareholder				
Balance as at December 31, 2012	***-**	**97**	**7**	**104**	**32**	**1,568[(2)]**	**1,704**
Net profit for the year	-	-	-	-	-	286[(2)]	286
Adjustments and changes due to:							
Acquisition of fellow subsidiary	-	(63)	-	(63)	-	(6)	(69)
Benefits received from controlling shareholder	-	-	1	1	-	-	1
Benefit from share allocation	-	5	-	5	-	-	5
Issuance of shares in a consolidated company	-	4	-	4	-	-	4
Net other comprehensive loss after effect of tax	-	-	-	-	(17)	-	(17)
Balance as at December 31, 2013	***-**	**43**	**8**	**51**	**15**	**1,848**	**1,914**
Net profit for the year	-	-	-	-	-	292[(2)]	292
Adjustments and changes due to:							
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Benefit from share allocation	-	4	-	4	-	-	4
Net other comprehensive loss after effect of tax	-	-	-	-	(9)	-	(9)
Balance as at December 31, 2014	***-**	**47**	**8**	**55**	**6**	**2,140**	**2,201**
Effect of initial implementation of US GAAP on employee rights as at January 1, 2015(1)	-	-	-	-	(1)	-	(1)
Net profit for the year	-	-	-	-	-	251	251
Adjustments and changes due to:							
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Benefit from share allocation	-	5	-	5	-	-	5
Net other comprehensive loss after effect of tax	-	-	-	-	-*	-	-*
Balance as at December 31, 2015	***-**	**52**	**8**	**60**	**5**	**2,391**	**2,456**

* Amount less than NIS 0.5 million.
(1) See Note 2.C.2 below.
(2) Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Cash flows from operating activity						
Net profit for the year	**251**	**292****	**286****	**251**	**292****	**286****
Adjustments:						
Company's share in undistributed losses(profits) of investee companies (in consolidated: associates)	2	-*	(-*)	(60)	(45)	(43)
Depreciation of buildings and equipment	87	62**	62**	80	58**	60**
Expenses (income) in respect of credit losses	32	19	7	6	7	(1)
Profit from sale of securities available for sale	-	(12)	(37)	-	(12)	(37)
Impairment of securities available for sale	1	2	-	1	2	-
Profit from realization of investee companies (in consolidated: associates)	-	(3)	-	-	(3)	-
Profit from realization of buildings and equipment	(4)	(-*)	-	(4)	(-*)	-
Deferred taxes, net	4	8**	(7)	8	8**	(4)
Severance pay – increase in surplus of provision over amount funded	(3)	(3)	6	(3)	(4)	6
Revaluation of deposits with banking corporations	1	(1)	1	1	(1)	1
Benefit due to transactions with controlling owner	-*	-*	1	-*	-*	1
Benefit due to share allocation	5	4	5	5	4	5
Adjustments in respect of exchange-rate differences	(3)	(4)	*-	(3)	(4)	*-
Changes in current assets						
Placement of deposits with banks	(10)	(5)	(24)	(10)	(5)	(24)
Withdrawal of deposits from banks	9	3	22	9	3	22
Change in credit to cardholders and merchants, net	(534)	(376)	(39)	(290)	(27)	45
Change in receivables in respect of credit-card activity, net	(514)	(172)***	49***	(390)	(146)***	38***
Change in receivables in respect of factoring	(35)	(55)	(12)	-	-	-
Change in other assets, net	8	(29)	2	(1,033)	(510)	(287)
Changes in current liabilities						
Short-term credit from banking corporations, net	295	10	(19)	295	10	(5)
Change in payables in respect of credit-card activity, net	111	143***	(258)***	256	257***	(26)***
Change in other liabilities, net	183	56	(7)	193	55	(3)
Net cash from operating activity	**(114)**	**(61)**	**38**	**(108)**	**(61)**	**34**

* Amount less than NIS 0.5 million.

** Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below.

*** Reclassified.

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Cash flows from investment activity						
Investment in investee companies (in consolidated: associates)	-	-	(3)	-	-	(3)
Proceeds of realization of investments in investee companies (in consolidated: associates)	-	5	-	-	5	-
Acquisition of buildings and equipment	(72)	(97)**	(80)**	(67)	(90)**	(77)**
Acquisition of a fellow subsidiary	-	-	(69)	-	-	(69)
Proceeds of realization of buildings and equipment	4	-*	-	4	-	-
Proceeds of realization of securities available for sale	-	16	56	-	16	56
Net cash from investment activity	**(68)**	**(76)**	**(96)**	**(63)**	**(69)**	**(93)**
Cash flows from financing activity						
Redemption of subordinated notes	-	-	(31)	-	-	(31)
Issuance of share capital in a consolidated company	-	-	4	(11)	-	4
Issuance of capital in a subsidiary company	-	-	-	-	(7)	-
Net cash from financing activity	**-**	**-**	**(27)**	**(11)**	**(7)**	**(27)**
Decrease in cash	**(182)**	**(137)**	**(85)**	**(182)**	**(137)**	**(86)**
Balance of cash at beginning of year	**231**	**364**	**449**	**226**	**359**	**445**
Effect of changes in exchange rates on cash balances	**3**	**4**	**(-*)**	**3**	**4**	**(-*)**
Balance of cash at end of year	**52**	**231**	**364**	**47**	**226**	**359**
Interest and taxes paid and/or received						
Interest received	176	143	143	12	18	21
Interest paid	6	5	9	6	5	9
Dividends received	4	2	*-	4	2	*-
Taxes on income paid	126	111	121	87	90	98
Taxes on income received	21	1	23	21	-	23

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Appendix A						
Activity in assets and liabilities not involving cash flows						
Acquisition of buildings and equipment against liabilities to suppliers	(2)	(9)	4	(3)	(8)	2
Distribution of dividend not in cash by a subsidiary	-	-	-	21	-	31

* Amount less than NIS 0.5 million.
** Restated in light of retroactive implementation of the instructions of the Banking Supervision Department on capitalization of software costs. For further details, see Note 2.C.4 below.

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

Notes to the Financial Statements

Note 1 – General

Isracard Ltd. (hereinafter: the “**Company**”) is a corporation incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: the "**Parent Company**" / "**Bank Hapoalim**"). The holder of the 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 and clearing Isracard, MasterCard, and Visa brand credit-card transactions and in financing activity, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd. and of its sister company Poalim Express Ltd. The financial statements as at December 31, 2015, include those of the Company and of its subsidiaries (hereinafter: the "**Group**"), as well as the Group's interests in joint operations and in associates.

The notes to the financial statements refer to the financial statements of the Company and to the consolidated financial statements of the Company and its consolidated subsidiaries, except where the note states that it refers only to the Company or only to the consolidated statements.

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

Note 2 – Reporting Principles and Significant Accounting Policies

A. Definitions

In these financial statements:

- Generally accepted accounting principles (GAAP) for banks in the United States – 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 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 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 – Isracard Ltd.

2. The Group – The Company and its consolidated companies.

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

4. Subsidiaries/consolidated companies – Companies controlled by the Company.

5. Associated companies – Companies other than consolidated companies, the Company's investment in which is included in the financial statements based on the equity method.

6. Investee companies – Consolidated companies and associated companies.

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

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

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

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

11. Dollar – United States dollar.

12. 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.

13. 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.

14. Cost – Cost in reported amounts.

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

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

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

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

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. These directives are based on International Financial Reporting Standards (IFRS) and on Israeli GAAP. When International Financial Reporting Standards allow or do not include specific reference to a certain situation, these directives include specific application guidelines, based mainly on US GAAP.

2. Functional Currency and Presentation Currency

The consolidated 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. Basis of Measurement

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

- Financial instruments, derivatives, and other financial instruments measured at fair value through profit and loss;
- Financial instruments classified as available for sale;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee rights.
- Investments in joint operations and in associates.

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

Note 2 – Reporting Principles and Significant Accounting Policies (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.

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

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

In the financial statements for the year 2015, the Company has implemented the accounting standards and new directives set out below:

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

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

1. Adoption of US GAAP regarding employee rights

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

The circular provides that the amendments to the Public Reporting Directives will apply from January 1, 2015.

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

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

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

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

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

The effect of first-time implementation of the directive is a loss of NIS 1.5 million (net of tax) that was recorded as a separate item in the condensed consolidated statements of comprehensive income. This amount will be amortized on a straight-line basis over the average remaining period of service of employees expected to receive benefits in accordance with the plans. Other actuarial gains and losses in subsequent periods will also be included in other accumulated comprehensive income and will be amortized on a straight-line basis over the average period of service remaining of employees expected to receive benefits in accordance with the plans. See also Note 20 below.

Below are the principal new directives on employee rights:

The present workforce of the Company's employees includes:

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

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

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

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

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

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

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

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

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

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

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

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

For further information regarding the accounting policies used in the Company for employee rights, see Note 2.D,16 below.

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

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

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

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

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

3. Collective allowance for credit losses

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

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

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

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

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

In addition, the Banking Supervision Department set out further guidelines relating to various aspects in the process of capitalization of software costs. The Company has implemented the guidelines on the capitalization of software costs by way of retroactive implementation, and comparative figures have been restated.

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

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

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

Below is the effect of the retroactive application for each reporting period for which data are included in the financial statements:

An impact of NIS 25 million (net of tax) was recorded in the opening balance of retained earnings as of December 31, 2013, the earliest period presented in these financial statements. Comparative figures have been adjusted in prior reporting periods as follows:

The effect of the initial implementation of the new guidelines on balance sheet items

	As at December 31, 2014					
	Consolidated			Company		
	As previously reported	Effect of retroactive application	Reported in these statements	As previously reported	Effect of retroactive application	Reported in these statements
	NIS millions					
Buildings and equipment	299	(34)	265	209	(34)	175
Other assets	408	9	417	2,759	9	2,768
Capital attributed to shareholders of the Company	2,226	(25)	2,201	2,226	(25)	2,201
Ratio of Tier 1 shareholders' equity to risk components	19.0%	(0.1%)	18.9%	19.0%	(0.1%)	18.9%
Ratio of overall capital to risk components	20.0%	(0.2%)	19.8%	20.0%	(0.2%)	19.8%

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

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

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

The effect of the initial implementation of the new guidelines on statements of profit and loss, comprehensive income, and statement of cash flows – in consolidated

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	As previously reported	Effect of retroactive application	Reported in these statements	As previously reported	Effect of retroactive application	Reported in these statements
	NIS millions			NIS millions		
Statement of Profit and Loss						
Operating	493	(12)	481	507	(1)	506
Provision for taxes on the profit	113	3	116	95	(-*)	95
Profit after taxes	283	9	292	285	1	286
Net profit	283	9	292	285	1	286
Basic profit per share	385	11	396	388	2	390
Statement of Comprehensive Income						
Net profit	283	9	292	285	1	286
Overall profit attributed to shareholders of the Company	274	9	283	268	1	269

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

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

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

The effect of the initial implementation of the new guidelines on statements of profit and loss, comprehensive income, and statement of cash flows – in consolidated (cont.)

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	As previously reported	Effect of retroactive application	Reported in these statements	As previously reported	Effect of retroactive application	Reported in these statements
	NIS millions			NIS millions		
Statement of Cash Flows						
Net profit	283	9	292	285	1	286
Depreciation of building and equipment	92	(30)	62	93	(31)	62
Deferred taxes, net	5	3	8	(7)	-*	(7)
Net cash from operating activities	(43)	(18)	(61)	68	(30)	38
Purchase of buildings and equipment	(115)	18	(97)	(110)	30	(80)
Net cash from investment activities	(94)	18	(76)	(126)	30	(96)

* Amount less than NIS 0.5 million.

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

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

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

The effect of the initial implementation of the new guidelines on statements of profit and loss, comprehensive income, and statement of cash flows – the Company

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	As previously reported	Effect of retroactive application	Reported in these statements	As previously reported	Effect of retroactive application	Reported in these statements
	NIS millions			NIS millions		
Statement of Profit and Loss						
Operating	475	(12)	463	493	(1)	492
Provision for taxes on the profit	87	3	90	76	(-*)	76
Profit after taxes	238	9	247	242	1	243
Net profit	283	9	292	285	1	286
Basic profit per share	385	11	396	388	2	390
Statement of Comprehensive Income						
Net profit	283	9	292	285	1	286
Overall profit attributed to shareholders of the Company	274	9	283	268	1	269

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

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

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

The effect of the initial implementation of the new guidelines on statements of profit and loss, comprehensive income, and statement of cash flows – the Company (cont.)

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	As previously reported	Effect of retroactive application	Reported in these statements	As previously reported	Effect of retroactive application	Reported in these statements
	NIS millions			NIS millions		
Statement of Cash Flows						
Net profit	283	9	292	285	1	286
Depreciation of building and equipment	88	(30)	58	91	(31)	60
Deferred taxes, net	5	3	8	(4)	-*	(4)
Net cash from operating activities	(43)	(18)	(61)	64	(30)	34
Purchase of buildings and equipment	(108)	18	(90)	(107)	30	(77)
Net cash from investment activities	(87)	18	(69)	(123)	30	(93)

* Amount less than NIS 0.5 million.

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

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

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

On April 28, 2015, a circular was published on "Updating the Structure of the Annual Report 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 except for the manner of presentation and disclosure.

6. Disclosure of interested parties and related parties.

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

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

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

D. Accounting Policy implemented in the Preparation of the Financial Statements

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

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 to the functional currency are recognized in profit and loss, with the exception of differences arising from translation of equity financial instruments classified as available for sale, which are recognized in other comprehensive income.

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

	Percentage 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 exchange rate	(10.1)	(1.2)	(2.8)

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

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

2. Basis for Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained to the date of cessation of control.

Control is the power to determine the financial and operational policy of a company in order to derive benefit from its operations. Potential voting rights that can be exercised immediately are taken into consideration in examining the existence of control. Control exists when the Company is exposed to or has a right to variable returns arising from its involvement in an acquiree, and has the ability to influence such returns through its influence over the acquiree.

Accounting policies of subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Group.

Joint Operations

When the Group has rights to assets and commitments to liabilities attributed to joint arrangements, it recognizes the assets, liabilities, income, and expenses of the joint operation in accordance with its interests in these items, including its share of items held or created jointly. Profits or losses from transactions with joint operations are recognized only in the amount of the share of the other parties in the joint operation. When such transactions provide evidence of decline in value of such assets, the losses are recognized in full by the Group.

Investments in Associates

Associates are entities in which the Group has material influence on financial and operational policy, but has not obtained control or joint control. Investments in associates are treated according to the equity method and recognized for the first time at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share in income and expenses, profit or loss, and other comprehensive income of investee entities dealt with on equity-basis, after the necessary adjustments to the accounting policy of the Group, from the date on which the material influence exists, to the date when the material influence ceases to exist.

The Company does not adjust accounting policies implemented by non-financial associates.

Loss of Material Influence

The Group discontinues the use of the equity method from the date of the loss of its material influence, and treats the remaining investment as a financial asset.

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

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

Inter-Company Transactions

Mutual balances in the Group and unrealized income and expenses arising from inter-company transactions were canceled in full, in the framework of preparation of the consolidated financial statements.

3. Basis for Recognition of Revenues and Expenses

1. Income from clearing fees, net of fee refunds, is recognized in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.
2. The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, "Reporting Income on a Gross or Net Basis," and accordingly presents income from clearing fees on a net basis.
3. Income from card fees and deferred-debit fees collected from cardholders are recognized in the statement of profit and loss on a cumulative basis.
4. Interest income and expenses are recognized on an accrual basis, with the exception of interest on amounts in arrears, which is recognized in the statement of profit and loss based on actual collection.
5. Securities and derivative financial instruments – see Sections 5 and 6 below.
6. Other income and expenses are recognized on an accrual basis.

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

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

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

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

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Identification and Classification of Impaired Debts

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

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

Allowance for Credit Losses

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

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

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

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

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

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

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually in large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is calculated in accordance with the rules set forth in FAS 5 (ASC 450), "Contingencies," based on the formula for the calculation of the collective allowance specified in the temporary order issued by the Banking Supervision Department, regarding the collective allowance for credit losses in the years 2011 - 2012, and the circular on the collective allowance for individual persons dated January 19, 2015. The formula is based on historical rates of loss, distinguishing between problematic and non-problematic credit, and between individual persons and merchants, international organizations, and credit-card companies. In accordance with the directives of the Banking Supervision Department, the Company has formulated a method of measuring the collective allowance that takes into account both the rate of past losses and adjustments in respect of the relevant environmental factors. With regard to credit to private individuals, the rate of adjustment with respect to environmental factors shall not be less than 0.75% of outstanding non-problematic credit at each reporting date with respect to the average loss rates over the range of years.

Off-balance sheet credit

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

In addition, the Company evaluates the overall adequacy of the allowance for credit losses. The said evaluation is based on Management's judgment that takes into account the risks inherent in the loan portfolio and the valuation methods applied by the Company for determining the allowance.

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

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

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

Troubled Debt Restructuring

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

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

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

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

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

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

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

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

Charge-Offs

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

Revenue Recognition

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

Disclosure Requirements

The Company implements the disclosure requirements of credit quality of debts and the allowance for credit losses, as set forth in the framework of Accounting Standard Update 2010-20, which requires more extensive disclosure of debt balances, changes in the balance of the allowance for credit losses, any material acquisitions and sales of debts during the reporting period, and additional disclosures regarding credit quality.

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

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

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

5. Securities

The securities held by the Company are classified by the Company as securities available for sale. Accordingly, the securities are included in the balance sheet at fair value, which is usually based on stock-market rates, other than shares for which no fair value is available, which are measured in the balance sheet at cost, less impairment. Dividend income and losses from other-than-temporary impairment are allocated to profit and loss. Unrealized profits or losses from adjustment to fair value net of tax are allocated directly to a separate item within equity, in the statement of accumulated other comprehensive income, and are allocated to the statement of profit and loss upon realization.

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

6. Derivative Financial Instruments

The Company holds derivative financial instruments for the purpose of economic hedges of foreign-currency risks and interest-rate risks. Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Company. Changes in the fair value of these derivatives are recognized in profit and loss when they arise.

7. Establishing the Fair Value of Financial Instruments

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

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

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

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

7. Establishing the Fair Value of Financial Instruments (cont.)

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

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

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

Securities

The fair value of securities available for sale is determined based on market prices quoted in the primary market. In such cases, the fair value of the Company's investment in securities is the number of units multiplied by the quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Company's position relative to the trading volume (the holding size factor). If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative Financial Instruments

Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

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

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

7. Establishing the Fair Value of Financial Instruments (cont.)

Additional Non-Derivative Financial Instruments

A "market price" cannot be obtained for the majority of financial instruments in this category (such as debtors in respect of credit-card activity and deposits with banks), because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. For that purpose, future cash flows of impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

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

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

9. Offsetting Assets and Liabilities

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

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

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

10. Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Company has implemented the measurement and disclosure rules set forth in the American accounting standard FAS 166 (ASC 860-10), Transfers and Servicing of Financial Assets, pursuant to which a transferred financial asset shall be presented in the balance sheet of the party that controls it, whether that party is the transferor or the recipient of the asset. The Company removes liabilities to merchants upon early settlement of debts to the merchant and release of the obligation to the merchant.

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

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

11. Fixed Assets

Recognition and Measurement

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

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

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

Subsequent Costs

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

Depreciation

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

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

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

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

11. Fixed Assets (cont.)

Depreciation (cont.)

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

Buildings and investment property	50 years
Installations and improvements to rental properties	10-50 years
Computers and peripheral equipment	3-4 years
Software costs	4-5 years
Furniture and office equipment	5-16 years
Vehicles	6 years
Other	4-5 years

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

Software Costs

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

Subsequent Costs

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

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

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

11. Fixed Assets (cont.)

Amortization

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

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

The estimated useful life for the current period and for comparative periods with respect to capitalized development costs is 4 -5 years.

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

With regard to the effect of retroactive implementation on the financial statements of the instructions of the Banking Supervision Department on the matter of capitalization of software costs, see also Section C.4 above.

12. Leases

A lease is an agreement in which the lessor transfers the right to use an asset to the lessee for an agreed period of time, in return for a payment or a series of payments. There are two types of leases: finance leases (leases in which substantially all of the risks and rewards associated with ownership of the asset are transferred, regardless of whether property rights are transferred at the end of the arrangement) and operational leases (leases other than finance leases). The Company has operational leases only.

The Company presents assets under operational leases in its balance sheet according to the nature of the asset, and charges to the statement of profit and loss based on the straight-line method, over the period of the lease. In addition, in each period, the Company recognizes depreciation expenses in respect of depreciable assets under its ownership which are leased in operational leases; the depreciation policy with respect to such assets is consistent with the depreciation policy for depreciable assets owned by the Company.

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

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

13. Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Group as an owner) for the purpose of generating rent income or for equity appreciation or both, and not for the purpose of:

(a) Use in the delivery of services, or for administrative purposes; or

(b) Sale during the ordinary course of business.

Investment property is measured for the first time at the acquisition cost, plus transaction costs. In subsequent periods, the investment property is measured at cost, with the deduction of accumulated depreciation and losses from impairment.

14. Impairment of Non-Financial Assets

Timing of Examination of Impairment

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

Measurement of Recoverable Amount

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

Cancellation of Loss from Impairment

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

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

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

14. Impairment of Non-Financial Assets (cont.)

Impairment of In-House Software Development Costs

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

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

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

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

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

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

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

Investments in Associates

Investments in associates are examined for impairment when objective evidence of impairment exists, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, and in accordance with Ruling 4-1 of the Israel Securities Authority, Guidelines for Write-Downs of Long-Term Investments.

Goodwill constituting part of the investment in an associate is not recognized as a separate asset, and is therefore not examined separately for impairment. Impairment is examined with respect to the investment as a whole. If objective evidence exists indicating that the value of the investment may be impaired, the Group performs an estimate of the recoverable amount of the investment, which is the higher of its value in use and the net sale value.

In determining the value in use of an investment in an associate, the Group estimates its share of the current value of estimated future cash flows to be generated by the associate, including cash flows from the activities of the associate and the consideration for the final realization of the investment, or the current value of the estimated future cash flows expected to derive from dividends and from the final realization.

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

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

14. Impairment of Non-Financial Assets (cont.)

Investments in Associates (cont.)

Loss from impairment is recognized when the book value of the investment, after application of the equity method, exceeds the recoverable amount, and is recognized under the item "the Company's share in profits (losses) of associates, after tax" in the statement of profit and loss. Loss from impairment is not allocated to a particular asset, including to goodwill constituting part of the account of the investment in the associate. Loss from impairment shall be canceled only if changes have occurred in the estimates used to determine the recoverable amount of the investment since the date of the last recognition of loss from impairment. The book value of the investment, after cancellation of the loss from impairment, shall not exceed the book value of the investment that would have been determined according to the equity method if the loss from impairment had not been recognized. The cancellation of a loss from impairment shall be recognized under the item "the Company's share of profits (losses) after the effect of tax of associates."

15. Terminated Stars Loyalty Program

A balance exists in the Company's books in respect of the Stars program, which ended on June 30, 2012. The balance of the liability was reduced, beginning January 1, 2014, according to an agreement reached with the Supervisor of Banks. The reduction method represents the economic trajectory and receding risk in respect of the liability.

16. Employee rights

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

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

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

16. Employee rights (cont.)

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

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

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

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

17. Share-Based Payment Transactions

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

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

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

17. Share-Based Payment Transactions (cont.)

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

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

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

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

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

18. 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.

19. Expenses for Taxes on Income

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

Current Taxes

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

The provision for taxes on the income of a consolidated company that is a financial institution for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law.

Offsetting Current Tax Assets and Liabilities

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

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

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

19. Expenses for Taxes on Income (cont.)

Deferred Taxes

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

Tax assets are deferred 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.

Offsetting Deferred Tax Assets and Liabilities

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

Uncertain Tax Positions

The Company recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Tax positions that are recognized are measured at the maximum amount whose probability of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which there were changes in circumstances that led to a change in how it was considered.

20. Capitalization of Borrowing Costs

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

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

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

21. Earnings per Share

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

22. 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 the main activities of the Group are classified under operating activity. The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

23. Reporting on Operating Segments

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

24. 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".

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

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

25. Transactions with Controlling Parties

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

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

Loans, Including Deposits

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

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

E. New Accounting Standards and New Directives of the Banking Supervision Department in the Period Prior to Implementation

1. Recognition of income from contracts with customers

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

In accordance with the transitional provisions for the year 2015, it is required to implement the amendments to the Public Reporting Directives according to the circular on adoption of updated accounting principles on “Income from Contracts with Customers” from January 1, 2018. On initial application, a choice can be made between the alternative of applying retrospective restatement of comparative figures and the alternative of a prospective application while recording the accumulated effect on equity at the time of initial application.

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

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

E. New Accounting Standards and New Directives of the Banking Supervision Department in the Period Prior to Implementation (cont.)

2. Circular on application of generally accepted accounting principles in the US related to business combinations, consolidation of financial statements and investments in investee companies

On June 10, 2015, a circular was issued by the Banking Supervision Department on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP relating to Business Combinations, Consolidation of Financial Statements, and Investments in Investee Companies". Pursuant to the circular, US GAAP are to be implemented on these issues. The provisions set forth in the circular will apply from January 1, 2016 and thereafter. In the opinion of the Company, adoption of the directives is not expected to have a significant effect on its financial statements.

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

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

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

4. Implementation of US GAAP on taxes on income

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

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

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

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

Note 3 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Income from merchants						
Merchant fees	1,072	1,079	1,067	1,074	1,082	1,069
Other income	4	10	10	4	10	10
Total gross income from merchants	**1,076**	**1.089**	**1,077**	**1,078**	**1,092**	**1,079**
Less fees to other issuers	(240)	(220)	(198)	(240)	(220)	(198)
Total net income from merchants	**836**	**869**	**879**	**838**	**872**	**881**
Income in respect of credit-card holders						
Issuer fees	239	203	171	239	203	171
Service fees	213	227	193	213	226	193
Fees from transactions abroad	71	43	38	71	43	38
Total income in respect of credit-card holders	**523**	**473**	**402**	**523**	**472**	**402**
Total income from credit-card transactions	**1,359**	**1,342**	**1,281**	**1,361**	**1,344**	**1,283**

Note 4 – Net Interest Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
A. Interest income						
From credit to cardholders	101	67	66	2	2	2
From credit to merchants	67	65	64	9	12	15
From credit to others	-*	-*	-*	-	-	-
From deposits with banks	-*	3	5	-*	3	5
From other assets	12	10	10	11	17	30
Total interest income	**180**	**145**	**145**	**22**	**34**	**52**
B. Interest expenses						
To banking corporations	6	-*	10	6	-*	10
On other liabilities	-*	1	2	-*	1	2
Total interest expenses	**6**	**1**	**12**	**6**	**1**	**12**
Total net interest income	**174**	**144**	**133**	**16**	**33**	**40**

* Amount less than NIS 0.5 million.

Note 5 – Other Income

Reported amounts

In NIS millions

A. Other Income

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
From rental of assets	4	4	4	-	-	-
Operating fees from related parties	23	20	19	25	21	20
Non-interest financing income, net (1)	13	37	61	13	37	60
Others	17	16	16	14	15	15
Total other income	**57**	**77**	**100**	**52**	**73**	**95**

(1) See Note 5.B. below.

B. Non-Interest Financing Income, Net

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Net exchange-rate differences	11	22	24	11	22	23
Net income (expenses) in respect of derivative instruments	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)
Profits from investments in shares:						
Profits (losses) from sale of shares available for sale and provision for impairment	(2)	10	37	(2)	10	37
Profit from sale of shares of investee companies (in consolidated – associates)	-	3	-	-	3	-
Dividend from shares available for sale	4	2	*-	4	2	*-
Total profits from investment in shares	**2**	**15**	**37**	**2**	**15**	**37**
Total non-interest financing income, net	**13**	**37**	**61**	**13**	**37**	**60**

* Amount less than NIS 0.5 million.

Note 6 – Operating Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Wages and related expenses*	187	182**	214**	178	175**	208**
Data processing and computer maintenance	32	29	36	30	28	34
Automatic Bank Services (ABS)	22	20	18	21	19	18
Incoming and outgoing tourism	59	52	45	59	52	45
Amortization and depreciation	87	62**	62**	80	58**	60**
Communications	7	9	8	7	9	8
Production and delivery	65	69	64	65	69	63
Damages from abuse of credit cards	6	7	7	6	7	7
Rent and building maintenance	30	30	31	37	36	37
Others	34	21	21	21	10	12
Total operating expenses	**529**	**481**	**506**	**504**	**463**	**492**
* Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	1	1	1	1	1	1

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 7 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Wages and related expenses*	64	61	59	59	56	55
Advertising	23	30	39	23	30	39
Customer retention and recruitment*	65	63	48	65	63	48
Gift campaigns for credit-card holders	4	(2)	19	4	(2)	19
Vehicle maintenance	6	6	7	5	6	6
Consumer Club management fees	68	52	36	68	52	36
Others	5	6	5	6	5	5
Total sales and marketing expenses	**235**	**216**	**213**	**230**	**210**	**208**
* Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	5	7	5	5	7	5

Note 8 – General and Administrative Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Wages and related expenses**	29	27	31	26	24	28
Professional services	14	17	18	12	15	15
Insurance	5	5	6	5	5	6
Others	13	14	17	12	13	16
Total general and administrative expenses	**61**	**63**	**72**	**55**	**57**	**65**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	-*	-*	2	-*	-*	2

* Amount less than NIS 0.5 million.

Note 9 – Provision for Taxes on Profit

Reported amounts

In NIS millions

1. Composition:

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Current taxes for the tax year	104	110**	102**	63	85**	80**
Deferred taxes for the tax year	4	5	(7)	8	4	(4)
Taxes for previous years	-*	1	-*	(-*)	1	-*
Provision for taxes on income	**108**	**116**	**95**	**71**	**90**	**76**

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

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Tax rate applicable to the Company in Israel	26.5%	26.5%	25%	26.5%	26.5%	25%
Tax amount based on statutory tax rate	96	108**	95**	69	89**	80**
Tax increment (saving) in respect of:						
Amortization differences, amortization adjustment, and capital gains	-*	(-*)	(1)	(-*)	(-*)	(1)
Unrecognized expenses	3	2	1	3	2	1
Exempt expenses	(1)	(2)	(-*)	(1)	(2)	(-*)
Benefit from loss and tax credit from a previous period used to reduce current taxes	(1)	(1)	(-*)	-	-	-
Benefit from temporary differences for a previous period used to reduce deferred taxes	-	(-*)	(-*)	-	(-*)	(-*)
Change in balance of deferred taxes due to changes in tax rates	-*	-*	(5)	-	-*	(4)
Tax expenses for previous years	(-*)	1	-*	(-*)	1	-*
Timing differences that do not carry deferred taxes	2	2	-*	-*	-	-
Difference in tax rate on financial institutions	9	6	5	-	-	-
Provision for taxes on income	**108**	**116**	**95**	**71**	**90**	**76**

* Amount less than NIS 0.5 million.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

3. Final tax assessments have been issued to the Company up to and including the tax year 2012. Final tax assessments have been issued to the subsidiaries up to and including the tax year 2011, including tax assessments considered final under the Income Tax Ordinance.

Note 9 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred tax balances and provision for deferred taxes (consolidated)

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014	2015	2014
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	68	65	33.0	33.0	-	-	-	-
From provision for vacations, bonuses, and options	12	12	26.5	26.5	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	21	20	26.5	26.5	-	-	-	-
From adjustment of depreciable non-monetary assets	4	9(1)	26.5	-26.5	8	8	26.5	26.5
From adjustments of securities and derivatives	(2)	(2)	26.5	26.5	-	-	-	-
Other	-*	2	26.5	26.5	-	-	-	-
Total	**103**	**106**			**8**	**8**		

Deferred Tax Balances and Provision for Deferred Taxes (the Company)

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014	2015	2014
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	26	26	26.5	26.5	-	-	-	-
From provision for vacations, bonuses, and options	11	12	26.5	26.5	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	21	20	26.5	26.5	-	-	-	-
From adjustments of depreciable non-monetary assets	4	9(1)	26.5	26.5	-	-	-	-
From adjustments of securities and derivatives	(2)	(2)	26.5	26.5	-	-	-	-
Other	-*	2	26.5	26.5	-	-	-	-
Total	**60**	**67**			**-**	**-**		

Note 9 – Provision for Taxes on Operating Profit (cont.)

5. Taxes on Income Recognized Outside the Statement of Profit and Loss

Cumulative amount of taxes on items allocated directly to capital:

	December 31	
	2015	2014
	In NIS millions	
Deferred taxes	1	12(1)

(1) Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

6. Changes in tax rates

A. Corporation tax

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

2013: 25%

2014: 26.5%

2015: 26.5%

On January 4, 2016, the Knesset passed the Amendment to the Income Tax Ordinance (No. 216), 2016 which stipulated, inter alia, a decrease in the rate of Companies Tax from 2016 and thereafter of 1.5% to stand at 25%. If the legislation would have been completed by December 31, 2015, the effect of the change on the financial statements at December 31, 2015, would have reflected a decrease in balances of deferred tax assets of NIS 6 million which would have been recognized against deferred tax expenses.

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

B. Update of Value Added Tax and Profit Tax

The Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2013, was published in the Official Gazette on June 2, 2013. The amendment adjusted the rate of Profit Tax applicable to financial institutions to 18% beginning June 2, 2013. Pursuant to this change, the statutory tax rate applicable to financial institutions rose to 36.21% in 2013, and in 2014 and thereafter the rate rose to 37.71%.

On October 12, 2015, the Knesset plenum approved the Value Added Tax Order (Tax Rate for Non-Profits and Financial Institutions) (Amendment), 2015, which states that the rate of Profit Tax imposed on financial institutions will decrease from 18% to 17%, from October 1, 2015. As a result of the aforementioned change, the statutory tax rate which applies to financial institutions will decline from 37.71% to 37.58% in 2015 and to 37.18% from 2016 and thereafter. (The tax rate for 2016 is on the assumption that the Companies Tax rate is 26.5%. In view of the lowering of the corporate tax rate as a result of the foregoing, the Companies Tax rate decreased to 25% from 2016 and thereafter and thus the statutory tax rate in 2016 and thereafter will be 35.9%).

The change in the Profit Tax rate described above resulted in a decrease in deferred tax assets of about NIS 1 million. The update of deferred tax balances was recognized against deferred tax expenses.

Note 10 – Cumulative Other Comprehensive Income (Loss)

Reported amounts

NIS millions

A. Changes in cumulative other comprehensive income (loss), after tax

	Adjustments for presentation of securities available for sale at fair value	Adjustments for employee rights (1)	Other comprehensive income (loss) attributed to shareholders of the Company
Balance as at Dec. 31, 2012	**32**	**-**	**32**
Net change during the period	(17)	-	(17)
Balance as at Dec. 31, 2013	**15**	**-**	**15**
Net change during the period	(9)	-	(9)
Balance as at Dec. 31, 2014	**6**	**-**	**6**
Net change during the period	1	(2)	(1)
Balance as at Dec. 31, 2015	**7**	**(2)**	**5**

B. Changes in components of cumulative other comprehensive income (loss), before and after tax

	For the year ended December 31, 2015		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Adjustments for presentation of securities available for sale at fair value:			
Net unrealized gains (losses) from adjustments to fair value	1	(-*)	1
Total net change during the period	**1**	**(-*)**	**1**
Employee rights (1)			
Net actuarial loss in the period	(3)	1	(2)
Net change during the period	(3)	1	(2)
Total net change during the period	**(2)**	**1**	**(1)**

* Amount less than NIS 0.5 million.

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

Note 10 – Cumulative Other Comprehensive Income (Loss) (cont.)

Reported amounts

NIS millions

B. Changes in components of cumulative other comprehensive income (loss), before and after tax (cont.)

	For the year ended December 31, 2014		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Adjustments for presentation of securities available for sale at fair value:			
Net unrealized gains (losses) from adjustments to fair value	(-*)	-*	(-*)
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(12)	3	(9)
Total net change during the period	**(12)**	**3**	**(9)**

	For the year ended December 31, 2013		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Adjustments for presentation of securities available for sale at fair value:			
Net unrealized gains (losses) from adjustments to fair value	15	(3)	12
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(37)	8	(29)
Total net change during the period	**(22)**	**5**	**(17)**

* Amount less than NIS 0.5 million.

Note 11 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2015	**2014**	**2015**	**2014**
Cash on hand(1)	48	40	47	39
Deposits with banks for original terms of up to 3 months(1)	4	191	-*	187
Total cash and cash equivalents	**52**	**231**	**47**	**226**
Other deposits with banks(1)	17	17	17	17
Total	**69**	**248**	**64**	**243**

* Amount less than NIS 0.5 million.

(1) After deduction of allowance for credit losses.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses Reported amounts

In NIS millions

A. Debtors in respect of credit card activity

	2015					
	Average annual interest rate		Consolidated		The Company	
	On daily balance	On transactions in the last month	December 31		December 31	
			2015	2014	2015	2014
	%	%	In NIS millions		In NIS millions	
Credit risk not under bank guarantee						
Individuals (1)			**3,103**	**2,300**	**1,595**	**1,451**
Of which: debtors in respect of credit cards (2)	-	-	1,595	1,451	1,595	1,451
Of which: credit (2)(3)	8.1	7.7	1,508	849	-	-
Commercial			**994**	1,126	**322**	**624**
Of which: debtors in respect of credit cards (2)	-	-	165	176	165	176
Of which: credit (2)(3)(4)	5.1	4.8	829	950	157	448
Total credit risk not under bank guarantee			**4,097**	**3,426**	**1,917**	**2,075**
Credit risk under bank and other guarantee						
Debtors in respect of credit cards	-	-	9,805	9,382	9,805	9,382
Credit	6.4	6.4	75	77	-	-
Companies and international credit-card organizations			1,212	1,279*	717	889*
Income receivable			30	24	16	15
Others			4	4	4	4
Total debtors in respect of credit-card activity			**15,223**	**14,192**	**12,459**	**12,365**

* Reclassified

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

(2) Debtors in respect of credit cards - before interest charges. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit – credit with an interest charge including credit transactions, transactions with revolving credit cards, direct credit and other transactions.

(3) Including credit secured by vehicles in the amount of NIS 110 million consolidated (December 31, 2014 – NIS 108 million).

(4) Of which: credit to merchants in the amount of NIS 679 million consolidated (December 31, 2014 – NIS 870 million). This amount includes advance payments, prepayments and balance sheet set-offs (not meeting the condition of settling obligations to merchants under FAS166) in the amount of NIS 150 million consolidated (December 31, 2014 – NIS 442 million).
Of which: credit to merchants in the amount of NIS 157 million in the Company (December 31, 2013 – NIS 448 million). This amount includes advance payments, prepayments and balance sheet set-offs (not meeting the condition of settling obligations to merchants under FAS166) in the amount of NIS 150 million in the Company (December 31, 2014 – NIS 442 million).

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

Reported amounts

In NIS millions

Consolidated

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

Allowance for credit losses

1. Change in balance of allowance for credit losses

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee (3)	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit(2)	Debtors in respect of credit cards	Credit(2)		
Balance of allowance for credit losses as at 31.12.2014	37	46	3	21	10	117
Expenses (income) in respect of credit losses	5	21	1	3	2	32
Charge-offs	(10)	(10)	(1)	(2)	(-*)	(23)
Recovery of debts charged off in previous years	5	2	-*	-(4)	-*	7
Net charge-offs	**(5)**	**(8)**	**(1)**	**(2)**	**(-*)**	**(16)**
Balance of allowance for credit losses as at 31.12.2015**	**37**	**59**	**3**	**22**	**12**	**133**
**** Of which:**						
In respect of off-balance-sheet credit instruments	5	7	-*	3	2	17
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

See notes below.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

Reported amounts

In NIS millions

Consolidated

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

Allowance for credit losses

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

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[3]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]		
Balance of allowance for credit losses as at 31.12.2013	33	36	4	25	11	109
Expenses (income) in respect of credit losses	5	13	(1)	2	-*	19
Charge-offs	(8)	(6)	(-*)	(6)	(1)	(21)
Recovery of debts charged off in previous years	7	3	-*	-[4]	-*	10
Net charge-offs	**(1)**	**(3)**	**(-*)**	**(6)**	**(1)**	**(11)**
Balance of allowance for credit losses as at 31.12.2014**	**37**	**46**	**3**	**21**	**10**	**117**
**** Of which:**						
In respect of off-balance-sheet credit instruments	4	5	-*	5	2	16
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

See notes below.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

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

Allowance for credit losses

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

	For the year ended December 31, 2013					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[3]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]		
Balance of allowance for credit losses as at 31.12.2012	40	36	2	20	7	105
Expenses (income) in respect of credit losses	(6)	1	1	6	5	7
Charge-offs	(17)	(8)	(-*)	(1)	(1)	(27)
Recovery of debts charged off in previous years	16	7	1	-[4]	-*	24
Net charge-offs	**(1)**	**(1)**	**1**	**(1)**	**(1)**	**(3)**
Balance of allowance for credit losses as at 31.12.2013**	**33**	**36**	**4**	**25**	**11**	**109**
**** Of which:**						
In respect of off-balance-sheet credit instruments	7	5	1	4	2	19
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

* Amount less than NIS 0.5 million.

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

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

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

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

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

Allowance for credit losses

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

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[3]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]		
Balance of allowance for credit losses as at 31.12.2014	37	-	3	5	7	52
Expenses (income) in respect of credit losses	5	-	1	-*	(-*)	6
Charge-offs	(10)	-	(1)	(1)	(1)	(13)
Recovery of debts charged off in previous years	5	-	-*	-[4]	-*	5
Net charge-offs	**(5)**	**-**	**(1)**	**(1)**	**(1)**	**(8)**
Balance of allowance for credit losses as at 31.12.2014**	**37**	**-**	**3**	**4**	**6**	**50**
**** Of which:**						
In respect of off-balance-sheet credit instruments	5	-	-*	-*	2	7
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

See notes below.

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee (3)	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit(2)	Debtors in respect of credit cards	Credit(2)		
Balance of allowance for credit losses as at 31.12.2013	33	-	4	4	8	49
Expenses (income) in respect of credit losses	5	-	(1)	3	(-*)	7
Charge-offs	(8)	-	(-*)	(2)	(1)	(11)
Recovery of debts charged off in previous years	7	-	-*	-(4)	-*	7
Net charge-offs	**(1)**	**-**	**(-*)**	**(2)**	**(1)**	**(4)**
Balance of allowance for credit losses as at 31.12.2014**	**37**	**-**	**3**	**5**	**7**	**52**
**** Of which:**						
In respect of off-balance-sheet credit instruments	4	-	-*	1	2	7
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

See notes below.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

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

Allowance for credit losses

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

	For the year ended December 31, 2013					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee [(3)]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[(2)]	Debtors in respect of credit cards	Credit[(2)]		
Balance of allowance for credit losses as at 31.12.2012	40	-	2	5	4	51
Expenses (income) in respect of credit losses	(6)	-	1	(1)	5	(1)
Charge-offs	(17)	-	(-*)	-*	(1)	(18)
Recovery of debts charged off in previous years	16	-	1	-[(4)]	-*	17
Net charge-offs	**(1)**	**-**	**1**	**-***	**(1)**	**(1)**
Balance of allowance for credit losses as at 31.12.2013**	**33**	**-**	**4**	**4**	**8**	**49**
**** Of which:**						
In respect of off-balance-sheet credit instruments	7	-	1	-*	2	10
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

* Amount less than NIS 0.5 million.

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

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

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

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

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

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

	For the year ended December 31, 2015					
	Allowance for credit losses					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]	Credit risk under bank and other guarantee [3]	Total
Recorded debt balance of debts						
Examined on an individual basis	1	-*	40	468	639	1,148
Examined on a collective basis	1,594	1,508	125	361	10,821	14,409
Total debts	**1,595**	**1,508**	**165**	**829**	**11,460**	**15,557**
Allowance for credit losses in respect of debts						
Examined on an individual basis	1	-*	-*	11	5	17
Examined on a collective basis	31	52	3	8	5	99
Total allowance for credit losses	**32**	**52**	**3**	**19**	**10**	**116**

* Amount less than NIS 0.5 million.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

B. Debts(1) and Off-Balance Sheet Credit Instruments (cont.)

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

	For the year ended December 31, 2014					
	Allowance for credit losses					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit(2)	Debtors in respect of credit cards	Credit(2)	Credit risk under bank and other guarantee (3)	Total
Recorded debt balance of debts						
Examined on an individual basis	4	2	48	723	522	1,299
Examined on a collective basis	1,447	847	128	227	10,728*	13,377
Total debts	**1,451**	**849**	**176**	**950**	**11,250**	**14,676**
Allowance for credit losses in respect of debts						
Examined on an individual basis	4	2	1	9	3	19
Examined on a collective basis	29	39	2	7	5	82
Total allowance for credit losses	**33**	**41**	**3**	**16**	**8**	**101**

* Reclassified.

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

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

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

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

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

	For the year ended December 31, 2015					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit[(2)]	Debtors in respect of credit cards	Credit[(2)]	Credit risk under bank and other guarantee [(3)]	Total
Recorded debt balance of debts						
Examined on an individual basis	1	-	40	112	8	161
Examined on a collective basis	1,594	-	125	45	10,610	12,374
Total debts	**1,595**	**-**	**165**	**157**	**10,618**	**12,535**
Allowance for credit losses in respect of debts						
Examined on an individual basis	1	-	-*	3	-*	4
Examined on a collective basis	31	-	3	1	4	39
Total allowance for credit losses	**32**	**-**	**3**	**4**	**4**	**43**

See notes below.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

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

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

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]	Credit risk under bank and other guarantee[3]	Total
Recorded debt balance of debts						
Examined on an individual basis	4	-	48	409	8	469
Examined on a collective basis	1,447	-	128	39	10,536**	12,150
Total debts	**1,451**	**-**	**176**	**448**	**10,544**	**12,619**
Allowance for credit losses in respect of debts						
Examined on an individual basis	4	-	1	3	-*	8
Examined on a collective basis	29	-	2	1	5	37
Total allowance for credit losses	**33**	**-**	**3**	**4**	**5**	**45**

* Amount less than NIS 0.5 million.

** Reclassified

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

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

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

C. Debts[1]

1. Credit quality and arrears

	December 31, 2015					
		Problematic[2]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [4]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	1,565	26	4	1,595	-	4
Credit	1,400	104	4	1,508	-	5
Commercial						
Debtors in respect of credit cards	163	2	-*	165	-	1
Credit	800	23	6	829	-	2
Debts under bank and other guarantee [5]	**11,459**	**-**	**1**	**11,460**	**-**	**-**
Total	**15,387 [6]**	**155**	**15**	**15,557**	**-**	**12**

* Amount less than NIS 0.5 million.

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

(2) Impaired, substandard and debts under special supervision.

(3) Impaired debts not accruing interest income. For information on certain impaired debts that underwent troubled debt restructuring, see Note 12.C.2,C below.

(4) Debts in arrears of 30 to 89 days have been classified as unimpaired problematic debts not accruing interest income.

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

(6) Of which: credit risk in the amount of NIS 15,307 million whose credit rating at the date of the report agrees with the credit rating for new credit performance pursuant to the policy of the Company.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

C. Debts(1) (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2014					
		Problematic(2)			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more	In arrears of 30 to 89 days (4)
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	1,424	21	6	1,451	-	2
Credit	797	48	4	849	-	2
Commercial						
Debtors in respect of credit cards	174	2	-*	176	-	-*
Credit	932	16	2	950	-	1
Debts under bank and other guarantee (5)	**11,250****	**-**	**-**	**11,250**	**-**	**-**
Total	**14,577 (6)**	**87**	**12**	**14,676**	**-**	**5**

* Amount less than NIS 0.5 million.

* Reclassified

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

(2) Impaired, substandard and special mention debts.

(3) Impaired debts not accruing interest income. For information on certain impaired debts that underwent troubled debt restructuring, see Note 12(C)(2))C) below.

(4) Debts in arrears of 30 to 89 days have been classified as unimpaired problematic debts not accruing interest income.

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

(6) Of which: credit risk in the amount of NIS 14,563 million whose credit rating at the date of the report agrees with the credit rating for new credit performance pursuant to the policy of the Company.

Credit Quality

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

C. Debts(1) (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2015				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	1	1	3	4	4
Credit	-*	-*	4	4	4
Commercial					
Debtors in respect of credit cards	-*	-*	-*	-*	-*
Credit	5	5	1	6	6
Debts under bank and other guarantee (4)	**1**	**1**	**-**	**1**	**1**
Total**	**7**	**7**	**8**	**15**	**15**
** Of which:					
Debts in troubled debt restructuring	**1**	**1**	**-**	**1**	**1**

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

C. Debts[1] (cont.)

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2014				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists (3)	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	4	4	2	6	6
Credit	2	2	2	4	4
Commercial					
Debtors in respect of credit cards	-*	-*	-*	-*	-*
Credit	1	1	1	2	2
Debts under bank and other guarantee (4)	**-**	**-**	**-**	**-**	**-**
Total**	**7**	**7**	**5**	**12**	**12**
** Of which:					
Debts in troubled debt restructuring	**6**	**6**	**-**	**6**	**6**

* Amount less than NIS 0.5 million.

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

C. Debts [1] (cont.)

2. Additional information regarding impaired debts (cont.)

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

	Consolidated		
	For the year ended December 31		
	2015	2014	2013
Debts not under bank guarantee			
Private individuals			
Debtors in respect of credit cards	3	5	8
Credit	1	2	2
Commercial			
Debtors in respect of credit cards	-*	1	1
Credit	2	2	4
Debts under bank and other guarantee (4)	-*	-	-
Total	6	10	15

See notes below.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

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

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring [(3)]

	Consolidated	
	For the year ended December 31	
	2015	2014
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	1	4
Credit	-*	2
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-	-*
Debts under bank and other guarantee (4)	**-**	**-**
Total	**1**	**6**

* Amount less than NIS 0.5 million.

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

(2) Average recorded debt balance of impaired debts examined individually in the reporting period.

(3) Not accruing interest income.

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

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

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

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring

	For the year ended December 31, 2015				
	Debt restructured during the reporting period(3)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	1,120	6	6	179	1
Credit	179	1	1	40	-*
Commercial					
Debtors in respect of credit cards	52	-*	-*	13	-*
Credit	47	-*	-*	4	-*
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**1,398**	**7**	**7**	**236**	**1**

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

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

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2014				
	Debt restructured during the reporting period[(3)]			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	1,418	7	7	195	2
Credit	404	2	2	56	1
Commercial					
Debtors in respect of credit cards	89	1	1	22	-*
Credit	52	-*	-*	5	-*
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**1,963**	**10**	**10**	**278**	**3**

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

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

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2013				
	Debt restructured during the reporting period[(2)]			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	2,830	14	13	383	2
Credit	816	4	4	125	1
Commercial					
Debtors in respect of credit cards	180	1	1	41	1
Credit	74	1	1	7	-*
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**3,900**	**20**	**19**	**556**	**4**

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

Note 12A – Debtors [(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk[(1)(3)] by Size of Borrowers' Indebtedness

Consolidated

	December 31, 2015			
		Debtors in respect of credit-card activity		
	Number of borrowers (2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk (3)
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,305,682	1,782	1,690	500
Borrower balances over 5 and up to 10	463,883	2,451	2,265	840
Borrower balances over 10 and up to 15	256,588	1,875	1,605	1,239
Borrower balances over 15 and up to 20	156,349	1,430	1,105	1,268
Borrower balances over 20 and up to 30	172,046	1,994	1,367	2,198
Borrower balances over 30 and up to 40	81,568	1,371	714	1,414
Borrower balances over 40 and up to 80	73,733	1,965	832	1,711
Borrower balances over 80 and up to 150	5,371	334	171	191
Borrower balances over 150 and up to 300	824	141	54	23
Borrower balances over 300 and up to 600	265	93	34	18
Borrower balances over 600 and up to 1,200	92	55	19	19
Borrower balances over 1,200 and up to 2,000	39	53	7	7
Borrower balances over 2,000 and up to 4,000	40	88	11	28
Borrower balances over 4,000 and up to 8,000	16	67	6	20
Borrower balances over 8,000 and up to 20,000	14	102	-	61
Borrower balances over 20,000 and up to 40,000	6	100	-	32
Borrower balances over 40,000 and up to 200,000	5	110	-	141
Borrower balances over 200,000 and up to 400,000	1	222	-	-
Borrower balances over 400,000 and up to 800,000	2	956	-	-
Total	**2,516,524**	**15,189**	**9,880**	**9,710**
Income receivable and others	-	34	-	-
Total	**2,516,524**	**15,223**	**9,880**	**9,710**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of single borrowers and groups of borrowers.
(2) Number of borrowers by total debtors and off-balance-sheet credit risk.
(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

Note 12A – Debtors [(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk[(1)(3)] by Size of Borrowers' Indebtedness

Consolidated

	December 31, 2014			
		Debtors in respect of credit-card activity		
	Number of borrowers (2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk (3)
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,338,421	1,774	1,687	390
Borrower balances over 5 and up to 10	445,312	2,436	2,230	756
Borrower balances over 10 and up to 15	239,356	1,796	1,531	1,146
Borrower balances over 15 and up to 20	145,857	1,350	1,043	1,191
Borrower balances over 20 and up to 30	153,566	1,755	1,258	2,011
Borrower balances over 30 and up to 40	68,939	1,093	651	1,271
Borrower balances over 40 and up to 80	57,090	1,380	736	1,462
Borrower balances over 80 and up to 150	4,584	285	169	162
Borrower balances over 150 and up to 300	653	109	59	22
Borrower balances over 300 and up to 600	239	77	37	20
Borrower balances over 600 and up to 1,200	88	61	22	13
Borrower balances over 1,200 and up to 2,000	37	46	10	11
Borrower balances over 2,000 and up to 4,000	32*	64*	13	25
Borrower balances over 4,000 and up to 8,000	17	73	1	29
Borrower balances over 8,000 and up to 20,000	16	116	12	88
Borrower balances over 20,000 and up to 40,000	3	60	-	38
Borrower balances over 40,000 and up to 200,000	8	590	-	180
Borrower balances over 200,000 and up to 400,000	-	-	-	-
Borrower balances over 400,000 and up to 800,000	2	1,099	-	-
Total	**2,454,220**	**14,164**	**9,459**	**8,815**
Income receivable and others	-	28	-	-
Total	**2,454,220**	**14,192**	**9,459**	**8,815**

* Reclassified.

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of single borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and off-balance-sheet credit risk.

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

Note 13 – Securities

Reported amounts

In NIS millions

	December 31, 2015			
	Balance-sheet value	**Depreciated cost (in shares – cost)**	**Accumulated other comprehensive income*** **	**Fair value****
Securities available for sale:				
Shares of others*	19	9	10	19
Total securities available for sale	**19**	**9**	**10**	**19**

	December 31, 2014			
	Balance-sheet value	**Depreciated cost (in shares – cost)**	**Accumulated other comprehensive income*** **	**Fair value****
Securities available for sale:				
Shares of others*	20	11	9	20
Total securities available for sale	**20**	**11**	**9**	**20**

* Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of approximately NIS 7 million as at December 31, 2015 (December 31, 2014 - NIS 9 million).

** Fair-value data are based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from the sale of a large volume of securities.

*** Included in the statement of comprehensive income.

Note 14 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies

Reported amounts

In NIS millions

1. Composition

A. Consolidated

	December 31, 2015			December 31, 2014		
	Associates	Consolidated companies	Total	Associates	Consolidated companies	Total
Investments in shares by equity method	1	-	1	1	-	1
Other investments						
Shareholders' loans	-*	-	-*	2	-	2
Total investments	**1**	**-**	**1**	**3**	**-**	**3**
Of which: profits (losses) accrued since acquisition date	1	-	1	1	-	1
Items accrued in equity since acquisition date						
Details of goodwill:						
Original amount	-	10	10	-	10	10
Book balance	-	-	-	-	-	-

B. The Company

Investments in shares by equity method	1	356	357	1	306	307
Total investments	**1**	**356**	**357**	**1**	**306**	**307**
Of which: profits (losses) accrued since acquisition date	1	311	312	1	229	230

* Amount less than NIS 0.5 million.

Note 14 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

2. The Company's share in profits or losses of investee companies (consolidated: associates)

	Consolidated			The Company		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
The Company's share in profits before taxes of investee companies (consolidated: associates)	-*	(-*)	*-	97	71	63
Losses from impairment of investee companies (consolidated: associates)	(2)	-	-	-	-	-
Provision for taxes:						
Current taxes	-	*-	*-	41	25	22
Deferred taxes	-	*-	*-	(4)	1	(2)
Total provision for taxes	**-**	***-**	***-**	**37**	**26**	**20**
The Company's share in profits (losses) after taxes of investee companies (consolidated: associates)	**(2)**	**(-*)**	**-***	**60**	**45**	**43**

* Amount less than NIS 0.5 million.

Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

3. Details

A. Consolidated subsidiaries

Company name and activity (1) (2)	Share in capital granting the right to receive profits		Share in voting rights		Equity investment By equity method (3)	
	2015	2014	2015	2014	2015	2014
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Granting credit	100%	100%	100%	100%	156	104
Isracard Nechasim Ltd.						
Activity: Property company	100%	100%	100%	100%	71	86
Global Factoring Ltd.						
Activity: Debt discounting	100%	100%	100%	100%	14	9
Europay (Eurocard) Israel Ltd. (4)						
Activity: Banking auxiliary corporation	100%	100%	100%	100%	5	3
Tzameret Mimunim Ltd.						
Activity: Credit-card transaction discounting	100%	100%	100%	100%	110(5)	104(5)

B. Associates

Kidum Mivne Iguach Ltd.						
Activity: Granting vehicle loans	20%	20%	20%	20%	-*	-*
Life Style Financing Ltd.						
Activity: Granting credit	15%	15%	15%	15%	1	1
I.M.T. - The Central Vehicle Distribution Company Ltd. (8)						
Activity: Granting vehicle loans					-	-

* Amount less than NIS 0.5 million.

(1) Details in accordance with Section 32G of the Public Reporting Directives - Annual Financial Statements.

(2) All of the companies are held directly by the Company.

(3) Including balances of surplus costs attributed and goodwill, net of cumulative losses from impairment.

(4) As a banking auxiliary corporation, Europay complies with the regulatory capital requirements pursuant to Proper Conduct of Banking Business Directives No. 201-211, 299.
During 2015 and 2014, the Company issued shares for NIS 11 million and NIS 7 million, respectively.

Dividend recorded		Other capital investments		Contribution to net profit attributed to shareholders of the Company		Gain (loss) from impairment	
2015	2014	2015	2014	2015	2014	2015	2014
In NIS millions							
-	-	-	-	51	36	-	-
21	-	-	-	6	7	-	-
-	-	-	-	5	2	-	-
-	-	-	-	(9)	(5)	-	-
-	-	-	-	6	6	-	-
-	-	-	2	*-	*-	(2)[(a)]	-
-	-	-	-	1	-*	-	-
-	-	-	*-	(-*)	-	-	3

(5) Including a capital note repayable in the amount of NIS 65 million.

(6) Including a provision for impairment in respect of shareholders' loans.

(7) In January 2016, the Company invested in shareholders' loans, of about NIS 0.7 million, in I.D.D.S. Services, pursuant to a revised shareholders' agreement.

(8) In December 2014, the Company sold its holding in I.M.T.

Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates

1. Condensed information on financial position

	Percentage of ownership	Total assets	Total liabilities	Equity attributed to owners of the company	Book value of investment in associate
2015					
Kidum Mivne Iguach Ltd. (1)	20%	23	21	2	-*
Life Style Financing Ltd. (2)	15%	158	148	10	1

	Percentage of ownership	Total assets	Total liabilities	Equity attributed to owners of the company	Book value of investment in associate
2014					
Kidum Mivne Iguach Ltd. (1)	20%	23	22	1	2
Life Style Financing Ltd. (2)	15%	102	97	5	1

*

Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates (cont.)

2. Condensed information on results of operations

	Percentage of ownership	Annual net profit (loss)	Profit (loss) attributed to owners of the Company
2015			
Kidum Mivne Iguach Ltd.	20%	-*	-*
Life Style Financing Ltd.	15%	5	5
2014			
Kidum Mivne Iguach Ltd.	20%	-*	-*
Life Style Financing Ltd.	15%	2	2
I.M.T. - The Central Vehicle Distribution Company Ltd. (3)	15%	(1)	(1)
2013			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(-)*	(-)*
Life Style Financing Ltd.	15%	1	1

* Amount less than NIS 0.5 million.

(1) Includes a shareholders' loan.

(2) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is at a rate of less than 20%, due to the existence of qualitative indicators of material influence, including representation on its board of directors.

(3) In December 2014, the Company sold its holding in I.M.T.

Note 15 – Buildings and Equipment

Reported amounts
In NIS millions

Consolidated

A. Composition

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Investment property	Total
Cost:									
As at December 31, 2014	48	90	175	475**	1	58	43	21	911
Additions	-	2	18	52	-*	2	-*	-	74
Disposals	-	-	-	-	(-*)	-	(-*)	-	(-*)
As at December 31, 2015	**48**	**92**	**193**	**527**	**1**	**60**	**43**	**21**	**985**
Accumulated depreciation:									
As at December 31, 2014	12	46	130	375**	1	39	39	4	646
Additions	2	5	30	47	-*	3	-*	-*	87
Disposals	-	-	-	-	(-*)	-	(-*)	-	(-*)
As at December 31, 2015	**14**	**51**	**160**	**422**	**1**	**42**	**39**	**4**	**733**
Depreciated balance as at December 31, 2015	**34**	**41**	**33**	**105**	**-***	**18**	**4**	**17**	**252**
Depreciated balance as at December 31, 2014	**36**	**44**	**45**	**100**	**-***	**19**	**4**	**17**	**265**
Average weighted depreciation rate in 2015 (%)	2.0	7.2	26.7	25.0	15.0	10.0	25.0	2.0	
Average weighted deprecation rate in 2014 (%)	2.0	8.9	24.9	22.6	15.0	10.0	55.5(2)	2.0	

* Amount less than NIS 0.5 million.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

(1) Includes capitalized costs related to the development of software for internal use, which amounted to NIS 279 million as at December 31, 2015 (December 31, 2014 - NIS 240 million). With regard to the policy on capitalization of software costs, see Note 2.C.4. above.

(2) Pursuant to an amendment of the Banking Rules published in January 2015, the Company decided to carry out accelerated depreciation of POS equipment.

B. Additional Disclosure Regarding Investment Property

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of discount rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A discount rate of 7% was used.
- The fair value of investment property assets as at December 31, 2015, amounts to NIS 28 million (December 31, 2014: NIS 29 million).
- Rental income from investment property amounted to approximately NIS 11 million in 2015, similar to 2014 and 2013.

Note 15 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As at December 31, 2014	33	173	455**	1	56	43	761
Additions	2	18	48	-*	2	-*	70
Disposals	-	-	-	(-*)	-	(-*)	(-*)
As at December 31, 2015	**35**	**191**	**503**	**1**	**58**	**43**	**831**
Accumulated depreciation:							
As at December 31, 2014	14	128	367**	1	37	39	586
Additions	4	30	43	-*	3	-*	80
Disposals	-	-	-	(-*)	-	(-*)	(-*)
As at December 31, 2015	**18**	**158**	**410**	**1**	**40**	**39**	**666**
Depreciated balance as at December 31, 2015	**17**	**33**	**93**	**-***	**18**	**4**	**165**
Depreciated balance as at December 31, 2014	**19**	**45**	**88**	**-***	**19**	**4**	**175**
Average weighted depreciation rate in 2015 (%)	10.4	26.7	25.0	15.0	10.0	25.0	
Average weighted deprecation rate in 2014 (%)	10.4	24.9	22.5	15.0	10.1	55.5(2	

* Amount less than NIS 0.5 million.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

(1) Includes capitalized costs related to the development of software for internal use, which amounted to NIS 257 million as at December 31, 2015 (December 31, 2014 - NIS 222 million). With regard to the policy on capitalization of software costs, see Note 2.C.4. above.

(2) Pursuant to an amendment of the Banking Rules published in January 2015, the Company decided to carry out accelerated depreciation of POS equipment.

Note 16 – Other Assets

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2015	2014	2015	2014
Deferred taxes receivable (see Note 25)	**103**	**106***	**60**	**67***
Surplus of advance income-tax payments over current provisions	**27**	**24**	**26**	**22**
Other debtors and debit balances:				
Loans to employees	3	3	3	3
Prepaid expenses	33	38	32	38
Institutions	5	5	-	-
Related companies	-	-	3,656	2,620
Debtors in respect of discounting	218	185	-	-
Debtors in respect of gift certificates and prepaid cards	39	45	8	8
Others	13	11	9	10
Total other debtors and debit balances	**311**	**287**	**3,708**	**2,679**
Total other assets	**441**	**417**	**3,794**	**2,768**

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 17 – Credit from Banking Corporations

Reported amounts

	December 31, 2015					
	Average annual interest rate					
			Consolidated		The Company	
	On daily balance	On transactions in the last month	December 31		December 31	
			2014	2013	2014	2013
	%	%	In NIS millions		In NIS millions	
Credit in current debit accounts	**0.5**	**0.5**	**323**	**28**	**323**	**28**

Note 18 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2015	**2014**	**2015**	**2014**
Merchants (1)	11,879	11,729	12,876	12,580
Liabilities in respect of deposits	1	1	1	1
International organization	-	5*	-	5*
Prepaid income	10	10	2	3
Benefit program for cardholders	42	63	42	63
Expenses payable	78	99*	78	99*
Others	116	108	116	108
Total creditors in respect of credit-card activity	**12,126**	**12,015**	**13,115**	**12,859**

* Reclassified.

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 576 million as at December 31, 2015 (December 31, 2014 - NIS 429 million). In the consolidated report – offset by an existing balance with an investee subsidiary.

Note 19 – Other Liabilities

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2015	2014	2015	2014
Provision for deferred taxes (see Note 9)	**8**	**8**	**-**	**-**
Surplus of provision for employee rights over amount funded (see Note 21)	**78**	**78**	**78**	**77**
Other creditors and credit balances:				
Expenses payable in respect of salaries and related expenses	61	64	60	63
Suppliers of services and equipment	50	13	49	12
Expenses payable	67	43	66	43
Institutions	20	16	11	10
Related companies	532	438	537	451
Allowance for credit losses in respect of off-balance-sheet credit facilities	17	16	7	7
Creditors in respect of discounting	6	5	-	-
Creditors in respect of gift certificates and prepaid cards	131	107	101	70
Travelers' checks in circulation, net	9	9	9	9
Others	9	5	3	3
Total other creditors and credit balances	**902**	**716**	**843**	**668**
Total other liabilities	**988**	**802**	**921**	**745**

Note 20 – Employee rights

Reported amounts

In NIS millions

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

A. Benefits at end of employment and post-employment

	December 31 2015
Severance pay in respect of end of employee-employer relationship	
Amount of liability	107
Fair value of plan assets	97
Surplus liability over plan assets*	**10**
Early retirement	
Amount of liability	59
Fair value of plan assets	-
Surplus liability over plan assets*	**59**
Grant for non-utilization of sick days	
Amount of liability	7
Fair value of plan assets	-
Surplus liability over plan assets*	**7**
Other benefits at end of employment and post-employment	
Amount of liability	2
Fair value of plan assets	-
Surplus liability over plan assets*	**2**
Total	**78**

* Included in "Other Liabilities"

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan

1. Commitments and financing status

a. Change in commitment in respect of forecast benefit

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Net commitment in respect of forecast benefit at beginning of period	**102**	**61**	**163**
Service cost	10	2	12
Interest cost	4	1	5
Actuarial loss (profit)	(4)	10	6
Benefits paid	(5)	(6)	(11)
Net commitment in respect of forecast benefit at end of period	**107**	**68**	**175**
Net commitment in respect of cumulative benefit at end of period	**90**	**67**	**157**

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

b. Change in fair value of plan assets and the financing status of the plan

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Fair value of plan assets at beginning of period	**90**	**-**	**90**
Actual return on the plan assets	2	-	2
Deposits in the plan by the Company	10	-	10
Benefits paid	(5)	-	(5)
Fair value of plan assets at end of period	**97**	**-**	**97**
Financing status – net liabilities recognized at end of the period*	**10**	**68**	**78**

* Included in "Other Liabilities"

c. Amounts recognized in the consolidated balance sheet

	December 31, 2015		
	Company employees	Bank employees on loan	Total
Amounts recognized in "Other Liabilities"	10	68	78
Net liabilities recognized at end of the period	**10**	**68**	**78**

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

d. Amounts recognized in cumulative other comprehensive income (loss), before tax effect

	December 31, 2015		
	Company employees	Bank employees on loan	Total
Actuarial loss (profit), net	(10)	13	3
Closing balance in cumulative other comprehensive income (loss)	**(10)**	**13**	**3**

e. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Commitment in respect of forecast benefit	107	68	175
Commitment in respect of cumulative benefit	90	67	157
Fair value of plan assets	97	-	97

f. Plans in which the commitment in respect of the forecast benefit exceeds the plan assets

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Commitment in respect of forecast benefit	107	68	175
Fair value of plan assets	97	-	97

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Service cost	10	2	12
Interest cost	4	1	5
Forecast return on plan assets	(3)	-	(3)
Subtraction of unrecognized amounts:			
Net actuarial loss	-*	(1)	(1)
Net total benefit cost	**11**	**2**	**13**

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total
Net actuarial loss (profit) for the period	(10)	14	4
Amortization of actuarial loss (profit)	-*	(1)	(1)
Total recognized in other comprehensive income	(10)	13	3
Net total benefit cost	11	2	13
Total recognized in net benefit cost for the period and in other comprehensive income	**1**	**15**	**16**

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

c. Estimate of amounts included in cumulative other comprehensive income and expected to be subtracted from cumulative other comprehensive income to the statement of profit and loss as an expense (as income) in 2016, before tax effect

	Company employees	Bank employees on loan	Total
Net actuarial loss (profit)	(1)	2	1
Total expected to be subtracted from cumulative other comprehensive income (loss)	**(1)**	**2**	**1**

* Amount less than NIS 0.5 million.

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	As at December 31, 2015	
	Company employees	Bank employees on loan
Discount rate	2.13%	1.6%
Rate of increase in CPI	2.0%	2.0%
Employee turnover rate	1.7%-24.4%	-(1)
Rate of growth of remuneration	0-2.6%	0.5%-7.5%

(1) Turnover rates with increased severance pay and early retirement were determined based on Bank Hapoalim's experience, taking into consideration the employee's age and gender. Turnover rates reflect the expectations and resolutions of Management with regard to employee retirement under preferred terms, and are based on research conducted among employees of Bank Hapoalim, encompassing turnover data beginning as of 1997. Current turnover rates were updated based on a study of Bank Hapoalim employee turnover. In addition, early retirement rates under preferred terms were adjusted to take into account Management expectations for employee retirement in 2014 – 2017 and from 2018 and thereafter.

2. Principal assumptions used to measure net benefit cost for the period

	For the period ended December 31, 2015	
	Company employees	Bank employees on loan
Discount rate	1.99%	1.54%
Long term forecast return on plan assets	2.42%	-
Rate of growth of remuneration	0-2.6%	0.5%-7.5%

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions (cont.)

b. Effect of a one percentage point change on the commitment in respect of the forecast benefit, before tax effect

	For the period ended December 31, 2015			
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
	Company employees	Company employees	Bank employees on loan	Bank employees on loan
	NIS millions			
Discount rate	(11)	15	(2)	2
Rate of increase in CPI	-*	-*	(-*)	-*
Employee turnover rate	3	(3)	2	(2)
Rate of growth of remuneration	17	(13)	1	(1)

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

4. Plan assets

a. Fair value of plan assets by type of assets for Company employees

	% of total plan assets December 31 2015
Cash and deposits in banks	7%
Shares	20%
Bonds:	
Government	39%
Corporate	26%
Total	**65%**
Other	8%
Total	**100%**

Amounts funded for severance pay of the employees are deposited in two severance pay funds and with a large number of individual provident funds / managers' insurance policies according to the employees' choice. The allocation of plan assets reported is based on current reports in the media with regard to some of the funds that represent the bulk of the current funds for Company employees.

b. Cash Flows

a. Deposits for Company employees

	2016 Forecast *	Actual deposits for the year ended December 31, 2015
Deposits	10	10

* Estimated deposits which the Company expects to pay to pension plans for a defined benefit during 2016.

Note 20 – Employee rights (cont.)

Reported amounts

In NIS millions

B. Defined Benefit Pension Plan (cont.)

4. Plan assets

c. Future benefit payments expected by the Company

	Company employees	Bank employees on loan	Total
2016	2	19	21
2017	1	7	8
2018	1	7	8
2019	1	6	7
2020	-*	5	5
2021-2025	4	17	21
2026 and thereafter	20	8	28
Total	**29**	**69**	**98**

* Amount less than NIS 0.5 million.

Note 20 – Employee rights (cont.)

C. Personal Contracts

1. Personal Contract with the Previous Chief Executive Officer

The previous Chief Executive Officer, Mr. Ronen Stein, served as CEO from February 1, 2015 until February 1, 2016. The previous CEO was employed under a personal contract with Bank Hapoalim and with the Company. The previous CEO was a Bank employee on loan during the time he was the CEO of Isracard.

On November 3, 2014, the Board of Directors and the Board of Directors of Bank Hapoalim gave their approval to Mr. Stein's appointment as CEO of the Company and his remuneration in accordance with the Employment Agreement, this following the approval of the Salary and Remuneration Committee of the Company and the approval of the Remuneration Committee of Bank Hapoalim, Mr. Stein also served as CEO of Europay (Eurocard) Israel Ltd. and Poalim Express Ltd.

According to the Employment Agreement, the former CEO was entitled to fixed remuneration paid to senior executives in Bank Hapoalim in accordance with the Remuneration Plan of Bank Hapoalim (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions) and variable remuneration according to the Company's Remuneration Plan.

On February 2, 2016, Dr. Ron Wexler began serving as Chief Executive Officer of the Company.

2. Mr. Dov Kotler

Mr. Dov Kotler finished his tenure as Chief Executive Officer of the Company at the end of January 2015. See also Note 13 to the financial statements as of December 31, 2014.

Note 20 – Employee rights (cont.)

D. Bonus Plan for the Previous Chief Executive Officer

As part of the Employment Agreement of the former Chief Executive Officer of the Company, Mr. Ronen Stein, as mentioned above, it was decided that with regard to variable remuneration, the previous CEO is subject to the Company's bonus plan, approved in accordance with its Remuneration Policy (hereinafter in this section: "the Plan").

Pursuant to the Plan, in each year of distribution, and subject to compliance with threshold requirements, a target bonus would be determined for the former CEO, at a certain percentage of the average bonus budget for members of Management of Bank Hapoalim, according to the Remuneration Plan of Bank Hapoalim ("the target bonus"). Determining the annual bonus to the previous CEO in a specific year, which may reach up to a rate of 120% of the target bonus, shall be in accordance with the score given to the previous CEO each year to be determined by the use of performance targets derived from a compliance percentage of the profit target to be determined each year, and individual targets (KPIs - Key Performance Indicators).

E. Bonuses

In September 2014, the Board of Directors of the Company approved the Remuneration Policy for Company employees according to the recommendations of the Remuneration Committee of the Company (hereinafter: **the "Remuneration Policy"**) and Proper Conduct of Banking Business Directive No. 301A of the Banking Supervision Department regarding the remuneration policy of a banking corporation from November 19, 2013 (hereinafter: **"Directive 301A"**). The remuneration policy was formulated, taking into account the principles of the Remuneration Policy of Bank Hapoalim. On December 16, 2014, the Board of Directors of the Company approved the "Isracard Ltd. and Isracard Group - Remuneration Plan (2014)", as amended (the "Remuneration Plan"). The Remuneration Plan is consistent with Remuneration Policy and is derived from and replaces previous Remuneration Plans in existence in the Company until that date. The Remuneration Plan applies to "key employees" in the Company only, as defined in Directive 301A.

The main points of the Plan are as follows:

Separate mechanisms for setting a bonus budgets and formats have been established for business functions and control and supervision functions.

Establishing the bonus budget for Officers that are not Directors (hereinafter: “the Senior Executives”)

The bonus budget for members of management in any given year (hereinafter: the "**Representative Bonus Budget**") is based on the calculation of the **"basic bonus amount,"** which is a certain percentage of the average bonus budget for managers in Bank Hapoalim with the rank of sub-division managers and senior officials in the Bank (as advised to the Company by the Chief Accountant of Bank Hapoalim), adjusted to the salaries of those members of management in the Company adjusted to a rate complying with the "target profit" as stipulated for the relevant year, as defined in the Remuneration Plan. The representative bonus budget for executives will be multiplied by the number of members of management that are not in the control function, and the result received is the "bonus budget." A certain percentage of the bonus budget to members of management (excluding members of management in the control function), in respect of the bonus year, will be distributed to members of management at the discretion of the Chief Executive Officer and subject to approval by the relevant organs of the Company.

Note 20 – Employee rights (cont.)

E. Bonuses (cont.)

Distribution of the bonus budget among the Senior Executives

Subject to the aforesaid, each year, the bonus budget shall be distributed to Senior Executives in respect of the preceding year, proportionally to the personal score of each Executive. Part of the personal score shall be fixed; part of the personal score shall be assigned according to the Executive's achievement of predefined performance targets established in advance by the Chief Executive Officer of the Company; and part of the personal score shall be assigned according to the recommendation of the Company’s Chief Executive Officer, based on his opinion. The distribution of the bonus budget and the establishment of the annual bonus shall be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law). A member of management on loan from Bank Hapoalim may be entitled to an additional amount of his annual bonus will be added in the event that the rate of return on equity of Bank Hapoalim is worth less than the cost of capital required.

The bonus mechanism for Executives defined as serving in control and supervision functions was adjusted such as to disconnect the amount of the bonus from the business results of the Company. The amount of the basic bonus (which is a certain percentage of the representative bonus budget, after certain adjustments), which is calculated for each senior executive in the control function, may increase or decrease depending on the individual score of these Executives, given in respect of meeting performance targets and the opinion of the immediate supervisor of the Senior Executive (similar to that stated above in respect of members of management not in the control function).

Ceilings and limits

The annual bonus shall not exceed the ceilings set in the program. The element of discretion in determining the annual bonus that exceeds the representative bonus budget for the member of management not in the control function, shall not exceed 20% of the annual bonus for the year, and for any Senior Executive in the control function, the element of discretion in determining the annual bonus may not exceed 20% of the annual bonus. In circumstances where there was a substantial deviation from the capital adequacy ratio (as defined in the Bank's remuneration plan), in any year, then prior to the approval of bonuses for key employees, the Company will apply for a recommendation from the member of management responsible for the Company on behalf of the Bank. There are additional restrictions in the plan, inter alia, regarding reimbursement of bonus amounts in the event of an amendment to the financial statements, the Board of Directors has the authority to reduce up to 50% of the annual bonus at its discretion under certain circumstances and more, in accordance with the Company's remuneration policy.

Note 20 – Employee rights (cont.)

E. Bonuses (cont.)

Payment mechanism – spreading of the annual bonus and the annual payment
Every year, 50% of the bonus will be paid in cash after the publication of the annual financial statements of the Company and of the Bank and 50% of the annual bonus will be deferred as follows:

For members of management on loan from the Bank - the payment will be through share-based Remuneration in the form of RSU units which under certain conditions will be exercised automatically into shares of Bank Hapoalim. The RSU units will vest in 3 equal annual tranches in the 3 years following the bonus year, at the end of each year and subject to certain rates of compliance with the Company's target profit.

For Senior Executives who are not on loan from Bank Hapoalim - 50% of the annual bonus will be paid in 3 equal annual tranches in the 3 years following the bonus year, at the end of each year and subject to certain rates of compliance with the Company's target profit.

Notwithstanding the aforesaid, in a year in which the total annual bonus does not exceed 1/6 of the fixed remuneration of the executive in that year, the annual bonus will be paid in cash.

Termination of Employment
In the event that a Senior Executive works only part of the bonus year, he will be entitled to a proportionate part of the annual bonus depending on the actual period in which he worked in the bonus year provided that he passed at least 90 days in the bonus year (or a shorter period of not less than 60 days, at the recommendation of the Chief Executive Officer). In the event of termination of employment in circumstances which do not qualify for severance pay, the Executive will not be entitled to an annual bonus in respect of the year in which his employment ended, and his entitlement to tranches of the deferred annual bonus unpaid at that date will lapse.

Additional remuneration of employees of the Company subject to the terms of the remuneration policy
The Company employs employees on loan from Bank Hapoalim who are not officers of the Company, and as such are entitled to the annual bonus, to which some of the employees of Bank Hapoalim are entitled determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The average annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance.

Employees employed directly by the Company who are not officeholders in the Company, are entitled to an annual bonus as decided by the Board of Directors of the Company. The decision of the Board of Directors is based on an existing plan made conditional on meeting targets set every year.

Note 20 – Employee rights (cont.)

F. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 2 million (December 31, 2014 - NIS 3 million).

G. Agreement with Employee Union

On December 25, 2013, the Company signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, a job description manual was agreed upon.

H. 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 21 – Share-Based Payment Transactions

1. The following are details of share-based payment arrangements that existed at the Company during the period ended December 31, 2015:

A. Options and phantom units for employees of Bank Hapoalim on loan to the Company

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

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

B. Remuneration plan for Bank Hapoalim employees on loan under a senior personal contract – bonuses and equity compensation

In August 2010, the Audit Committee and the Board of Directors of the Bank approved a Remuneration Plan (as amended from time to time) for the population of senior managers in the Bank who are also employees on loan (hereinafter: **"the Managers"**) applicable with effect from January 1, 2010, and thereafter (subject to adjustments In special cases) (hereinafter: the **"2010 Plan"**).

The 2010 Plan includes two means of compensation (in addition to salary and other benefits in the Bank): a risk-adjusted annual bonus contingent on performance and equity compensation in the form of a blocked phantom share plan, which was replaced in 2012 with a secondary plan for granting blocked stock units (RSU). Pursuant to the transitional provisions in the Remuneration Policy and in Directive 301A, there will be a gradual transition of executive remuneration from the 2010 Plan to the 2014 Plan adopted by the Bank on June 22, 2014, in accordance with the provisions of the Bank's Remuneration Policy of the Bank, so that no later than 2017 all remuneration of the Bank's managers and employees will be in accordance with the 2014 Plan.

Note 21 – Share-Based Payment Transactions (cont.)

C. In 2007, a memorandum of principles was signed by the Company and Mizrahi Bank Ltd. (hereinafter: "Mizrahi Bank"), which stated, among other matters, that Mizrahi Bank would continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years. In accordance with the memorandum of principles, the Company allocated shares to Mizrahi Bank, at a rate of 1.8% of the share capital of the Company, for the extension of the term of the existing agreements.

2. Estimated fair value of equity instruments granted

- The fair value of the options granted to employees of the Bank under the plan for 2010-2012 was measured on the date of their granting, using the Black & Scholes model.
- The fair value of the amount owed to the employees of the Company, as employees of the Company, including phantom units within the 2013-2017 plan, in respect of rights to the increase in the value of shares, settled in cash or equity instruments of the Parent Company, is re-measured at every reporting period until the date of settlement.

3. Additional information regarding number of options – 2010 Plan:

	Consolidated and the Company		
	Number of units for the year		
	2015	**2014**	**2013**
In circulation at beginning of year	180,632	415,297	617,612
Granted during the year	-	119,372	237,253
Forfeited during the year	(1,308)	(154,209)	(63,751)
Exercised during the year	(134,213)	(199,828)	(375,817)
In circulation at end of year	**45,111**	**180,632**	**415,297**

1. The weighted average exercise price is NIS 1 for all of the options.
2. No options were granted under the Plan in 2015. The weighted average fair value of the share options granted during the year, at the date of measurement was NIS 15.75 per option in 2014 and NIS 16.85 in 2013.

Note 21 – Share-Based Payment Transactions (cont.)

4. Additional information regarding number of options – 2014 Plan:

	Consolidated and the Company
	Number of units for the year
	2015
In circulation at beginning of year	-
Granted during the year	33,279
Forfeited during the year	-
Exercised during the year	(11,093)
In circulation at end of year	**22,186**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during the year at the date of measurement was NIS 17.63 per option.

5. Additional information regarding option warrant units for employees of Bank Hapoalim on loan to the Company:

	Consolidated and the Company		
	Number of units for the year		
	2015	2014	2013
In circulation at beginning of year	124,345	184,076	272,937
Granted during the year	4,111	8,160	-
Forfeited during the year	(3,284)	(6,814)	(17,031)
Exercised during the year	(62,394)	(61,077)	(71,830)
In circulation at end of year	**62,778**	**124,345**	**184,076**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during previous years was: 2015 – NIS 12.38, 2014 – NIS 12.73; and in 2013 no options were granted.
3. The weighted average share price at the exercise date of the share options exercised during the year was NIS 19.34 (2014 - NIS 19.85; and 2013 NIS 17.57 per option warrant).

Note 21 – Share-Based Payment Transactions (cont.)

6. Additional information regarding phantom units for employees of Bank Hapoalim on loan to the Company:

	Consolidated and the Company		
	Number of units		
	2015	**2014**	**2013**
In circulation at beginning of year	121,868	60,324	-
Granted during the year	67,970	61,544	60,324
In circulation at end of year	**189,838**	**121,868**	**60,324**

7. Liabilities arising from share-based payment transactions settled in cash

	Consolidated and the Company	
	December 31	
	2015	**2014**
	In NIS millions	
Total liabilities arising from share-based payment transactions	4	2
Intrinsic value of liabilities where the counterparty's right to cash or other assets vested by the end of the year	1	2

8. Effect of share-based payment transactions on profit and loss for the period

	For the year ended December 31		
	2014	**2014**	**2013**
	In NIS millions		
Expense arising from share-based payment plans	6	8	8

Note 22 – Shareholders' Equity

A. Composition

	December 31, 2015		December 31, 2014	
	Registered	**Issued and paid-up**	**Registered**	**Issued and paid-up**
	In NIS			
Common shares of NIS 0.0001	100	73	100	73
Special share of NIS 0.0001 (1)	-	-	-	-
	100	**73**	**100**	**73**

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

Share rights

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

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

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

B. Capital Adequacy Pursuant 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.

Adoption of Basel III directives

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

Note 22 – Shareholders' Equity (cont.)

B. Capital Adequacy Pursuant to the Directives of the Supervisor of Banks (cont.)

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

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

The amendments to the above directives came into effect on January 1, 2014, with gradual application in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy - Regulatory Capital - Transitional Provision", in order to facilitate compliance with the new requirements for regulatory capital in the framework of the implementation of Basel III, and to set a transitional period until they are fully implemented. The transitional provisions relate, among other things, to regulatory adjustments and deductions from capital, and equity instruments that are not eligible for inclusion in regulatory capital in accordance with the new criteria set out in the Basel directives. In particular, in accordance with the transitional provisions, the regulatory adjustments and deductions from capital as well as minority rights are not eligible for inclusion in regulatory capital are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018. Capital instruments no longer eligible as regulatory capital will be recognized up to a ceiling of 80% on January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022. From January 1, 2015 to December 31, 2015 the rate of deduction 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 22 – Shareholders' Equity (cont.)

B. Capital Adequacy Pursuant to the Directives of the Supervisor of Banks (cont.)

Reported amounts

In NIS millions

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

Calculated pursuant to Proper Conduct of Banking Business Directive Nos. 201-211, 299, on "Measurement and Capital Adequacy"

	As at December 31	
	2015	**2014**
1. Capital for purposes of calculating capital ratio		
Tier 1 shareholders' equity and Tier 1 capital, after deductions	2,457(1)	2,201(3)
Tier 2 capital	126	110
Total overall capital	**2,583**	**2,311**
2. Weighted balances of risk assets		
Credit risk	10,401	9,803(3)
Market risk	18	8
Operational risk	1,905	1,865
Total weighted balances of risk assets	**12,324**	**11,676**
3. Ratio of capital to risk components (in percentages)		
Tier 1 shareholders' equity and Tier 1 capital to risk components	19.9%	18.9%
Overall capital ratio to risk components	21.0%	19.8%
Minimum Tier 1 shareholders' equity required by the Banking Supervision Department (2)	9.0%(3)	9.0%(3)
Minimum overall capital required by the Banking Supervision Department (2)	12.5%(3)	12.5%(3)

Note 22 – Shareholders’ Equity (cont.)

B. Capital Adequacy Pursuant to the Directives of the Supervisor of Banks (cont.)

Reported amounts

In NIS millions

B. Effect of the transitional provisions on Tier 1 shareholders’ equity ratio

Capital ratio to risk components

	As at December 31	
	2015	**2014**
Tier 1 shareholders’ equity ratio to risk components before and after implementation of the effect of the transitional provisions in Directive 299	19.9%	18.9%

(1) Including effect of initial adoption of US GAAP on employee rights, which came into effect on January 1, 2015.

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

(3) Restated in light of retroactive implementation of the Banking Supervision Department’s instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 22 – Shareholders' Equity (cont.)

B. Capital Adequacy Pursuant 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, exposures to derivatives and securities financing transactions, and off-balance sheet items. As a rule, this measurement will be consistent with the accounting values and risk weightings are not taken into account. In addition, the Company is not allowed to use physical or financial collateral, guarantees or other techniques for mitigating credit risk, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Company calculates the exposure to derivatives pursuant to Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203. 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 January 1, 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until January 1, 2018.

Below is the leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218

	As at December 31, 2015
Tier 1 capital (in NIS millions)	2,457
Total exposures (in NIS millions)	20,289
Leverage ratio	12.1%
Minimum leverage ratio required by the Banking Supervision Department	5.0%

Note 23 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2015	2014	2015	2014
Unutilized credit-card credit lines:				
Credit risk on the Company	9,004	8,032	8,5238	7,528
Credit risk on banks	26,503	25,552	26,503	25,552
Credit risk on others	344	376	-*	-*
Allowance for credit losses	(10)	(10)	(6)	(6)
Unutilized credit-card credit lines, net	**35,841**	**33,950**	**35,035**	**33,074**
Guarantees and other liabilities:				
Exposure in respect of guaranteed checks	68	70	68	70
Exposure in respect of other guarantees	28	19	28	19
Liability in respect of debt discounting	61	52	-	-
Exposure in respect of other liabilities	171	109	7	5
Exposure in respect of merchant credit lines	163	279	74	149
Allowance for credit losses	(7)	(6)	(1)	(1)
Guarantees and other liabilities, net	**484**	**523**	**176**	**242**

* Amount less than NIS 0.5 million.

B. Activity in Derivative Instruments – Volume and Maturity Dates

1. On January 8, 2014, a consolidated company of the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 25 million nominal value, maturing in July 2015. The transaction was settled accordingly.

2. On November 4, 2014, a consolidated company of the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 30 million nominal value, maturing in May 2016. The transaction appears in the balance sheet at a negative fair value in an amount of less than NIS 0.5 million.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

3. On February 2, 2015, the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 25 million nominal value, maturing in August 2016. The transaction appears in the balance sheet at a negative fair value in an amount of less than NIS 0.5 million.

4. On July 15, 2015, a consolidated company of the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 5 million nominal value, maturing in January 2017. The transaction appears in the balance sheet at a negative fair value in an amount of less than NIS 0.5 million.

C. Antitrust and Regulatory Initiatives

1. Antitrust

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 Antitrust 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 a list of entities able to comprise a core of control in a clearer was expanded.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust 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 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 A-3C 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 23 – Contingent Liabilities and Special Agreements (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 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 23 – Contingent Liabilities and Special Agreements (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.

D. Legal Proceedings and Pending Claims

As at the date of the report, several legal claims have been filed against the Company and a consolidated company, arising in the normal course of their business, in the aggregate amount of approximately NIS 4 million as well as class action lawsuits. 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.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings and Pending Claims (cont.)

1. In April 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action. The personal claim amount is NIS 145, and the amount of the class action was not stated. According to the plaintiff who is a merchant who has clearing agreements with the respondents, the defendants acted unlawfully, in that the minimum fee they charged while he was bound concurrently in an agreement with a discounting firm, according to which he discounted through the discounting firm some of the transactions that he cleared by means of the defendants, without taking into account the amounts that were credited to the discounting firm. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting firm.
2. In July 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action against the companies and another credit card company. The personal claim is approximately NIS 17, and the class action is estimated only at the amount of NIS 200 million. According to the plaintiffs, the manner according to which the companies perform the conversion to shekels for transactions made in foreign currency is for an additional fee for which no proper disclosure was made to customers, and that thereby the Company violates various provisions of the law. The Company filed a motion to dismiss the motion outright. In January 2015, the Court ruled that the hearing would be held together with the hearing of a similar lawsuit filed against the banks. On March 8, 2015, a preliminary hearing was held in the case and the Court ordered the submission of revised applications for approval, to which the respondents will respond and in which framework all the arguments have to be raised and not as part of a motion for dismissal out of hand. A revised petition for approval and a reply were submitted on behalf of the companies. The case has been set for evidence.
3. In September 2014, the Company received a lawsuit and a motion for its approval as a class action against it and another credit card company. The amount of the class action has not been stated. The plaintiffs claim that vouchers issued by the Company, including a condition determining the short-term period for honoring the voucher are a uniform contract that includes discriminatory conditions, and should be canceled or changed. On February 16, 2015, the Company submitted its response to the petition for approval. In this response, the Company stated that is operating correctly and meets the requirements of the law and the approval should therefore be dismissed. A response was filed to this response and preliminary hearings were set in the case. The parties are negotiating a compromise.
4. In January 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the plaintiff, the Company charges a fee for "Foreign currency with a credit card from a currency exchanger" unlawfully on currency purchase transactions other than US dollars, contrary to the price list, thus the Company violates various statutory provisions. The personal claim is approximately NIS 37 and the amount of the class action was not specified. Preliminary hearings have been held in the case in which the Court recommended the parties have discussions about the possibility of compromise. The parties are negotiating a compromise.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings and Pending Claims (cont.)

5. In February 2015, a lawsuit was filed against the Company and another company together with a petition for its approval as a class action. The applicant claims that the defendants did not give discounts to debit card holders purchases for petrol and purchases at convenience stores contrary to the discount promised to debit card holders associated with certain clubs. The class action is estimated by the plaintiff at over NIS 3 million. The Company's response has been filed. A preliminary hearing will be set for June 2016.

6. In March 2015, the Company and another company received a lawsuit and a motion for its approval as a class action. According to the petitioner for approval, the Company sends mobile text messages with commercial content, without allowing their addressees to refuse to accept advertisements or to withdraw their consent by sending a text message, contrary to the provisions of the Communications Law (Bezeq and Services), 1982. The amount of the personal claim is approximately NIS 30, and the amount of the class action was not specified. The parties reached a settlement in which the applicant will discontinue the petition for approval. The arrangement was approved by the Court in November 2015.

7. In June 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the petitioner, the Company charged its customers a "Cash Withdrawal Commission" for an amount higher that specified in the price list, because of an incorrect calculation of the conversion rate of the commission from foreign currency into shekels. The amount of the personal claim is approximately NIS 5.5, and the amount of the class action is not evaluated. Since this is a malfunction detected by the Company at the time, and it refunded all the differences to the customers, the petitioner for approval requested a discontinuation and in September 2015, the Court upheld the discontinuation.

8. In September 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the petitioner, the manner in which the Company acted when charging a fee for obtaining information by telecommunications is in violation of the law. The personal damage is estimated by him at NIS 361.08 and the amount of the class action at about NIS 8.5 million. This is an application for approval in which an application for approval against the Company has been dismissed in light of the position of the Bank of Israel. After the Company applied to the other party and clarified the matter, he submitted his petition to amend the application for approval, to which the Company made its response.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings and Pending Claims (cont.)

9. In June 2015, the Company, Europay 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.
Also pending against the Company are lawsuits and petitions for their approval as class actions, as detailed below, for 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.

1. During December 2015, two petitions were submitted to replace an applicant for approval to act in a lawsuit filed in April 2014, (hereinafter: the "First Petition"), whose withdrawal was approved in July 2015. The first petition was filed against the three credit card companies. The applicants in the first petition, which was made in the amount of NIS 1.7 billion, claim that three credit card companies are party to a restrictive arrangement that did not obtain approval according to which in debit and prepaid transactions, monies owed to the merchants are held up them unlawfully and that they calculated the commission collected from merchants on the basis of the usual interchange fee in standard deferred transactions. It was also claimed in the first petition that clauses in the merchant agreement are discriminatory clauses in a uniform contract. After determining the identity of the plaintiffs and their new representatives, a new date will be set for an amended application for approval. Under these circumstances, it is not possible to estimate the chances of receiving a petition, which has not yet been amended and filed, and when it will be submitted will be a new petition.

2. In November 2015, the Company received a lawsuit and a motion for its approval as a class action consolidating into two class action lawsuits filed earlier in 2015, and which were consolidated into a single lawsuit. According to the petitioners for approval, cancellation of the points / stars program and the insufficient period given the Company's customers to make arrangements to realize the accumulated points were made unlawfully. The remedy sought is reimbursement of the economic value of the rights in respect of the stars deleted. The personal damage is estimated at NIS 28, and the damages to the Group at approximately NIS 162 million.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

3. In November 2015, the Company and received a lawsuit and a motion for its approval as a class action. According to the petitioner for approval, the Company sends mobile text messages with commercial content, without allowing their addressees to refuse to accept advertisements or to withdraw their consent by sending a text message, contrary to the provisions of the Communications Law (Bezeq and Services), 1982. The personal relief claimed is not pecuniary and is for an amount not less than NIS 100, and the class action is estimated at $ 6 million.

E. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

F. Agreements with Subsidiaries and Sister Companies

The Company has agreements with Isracard Mimun, Europay, Tzameret, Global, and Poalim Express, which are subsidiaries and a fellow subsidiary, for the operation of their credit-card systems and/or service agreements.

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

G. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim Ltd. (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 Union Bank (jointly, the "**Banks Under Arrangement**").

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

H. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles.

The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2015	2114
	In NIS millions	
First year	27	26
Second year	15	12
Third year	11	10
Fourth year	11	8
Fifth year	11	8
Over five years	10	10

J. Contractual Engagements with Customer Clubs

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as 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, Rami Levy, cards for Rafael Advanced Defense Systems Ltd., cards of retail chains, and more.

K. Pledges

A subsidiary has pledged a floating charge on all its financial assets, property and rights to secure its obligations to banks. In addition, the subsidiary company pledged a fixed charge on its share capital and a pledge on monies, bills and other collateral.

Note 24 – Operating Segments

A. General

The Company issues, clears, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands (hereinafter: "**MasterCard cards**"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC"). The Company also issues, acquires, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association.

The Issuance Segment

The Company issues and operates Isracard, MasterCard, and Visa credit cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards. All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment. Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad, as well as net financing income attributed to the segment. Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer. Main expenses associated with this segment: marketing, advertising, and management of customer clubs; benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment. Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment. Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 24 – Operating Segments (cont.)

The Financing Segment

The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability. All income and expenses related to the Company's interest-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to the Financing Segment.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance, Clearing, and/or Financing Segment, each of which does not constitute a reportable segment. This segment also includes income from the sale of shares of MC.

Note 24 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2015				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	516	842	-*	1	1,359
Inter-segmental fees	559	(559)	-	-	-
Total	**1,075**	**283**	**-***	**1**	**1,359**
Net interest income	10	(1)	165	-*	174
Other income	11	2	4	40	57
Total income	**1,096**	**284**	**169**	**41**	**1,590**
Expenses (income)					
In respect of credit losses	6	-*	26	-*	32
Operating expenses	330	167	24	8	529
Sales and marketing expenses	176	47	11	1	235
General and administrative expenses	34	20	7	-*	61
Payments to banks	366	6	(-*)	-	372
Total expenses	**912**	**240**	**68**	**9**	**1,229**
Profit before taxes	**184**	**44**	**101**	**32**	**361**
Provision for taxes on profit	48	14	34	12	108
Profit after taxes	**136**	**30**	**67**	**20**	**253**
The Company's share in profits of associates after tax	-	-	-	(2)	(2)
Net profit	**136**	**30**	**67**	**18**	**251**
Return on equity (percent net profit out of average capital)	9.1	14.9	11.5	42.7	10.8
Average balance of assets	11,418	1,083	2,709	120	15,330
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	316	11,688	387	619	13,010
Average balance of risk assets	7,664	1,031	2,988	216	11,899

* Amount less than NIS 0.5 million.

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

Note 24 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2014				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	466	873	1	2	1,342
Inter-segmental fees	558	(558)	-	-	-
Total	**1,024**	**315**	**1**	**2**	**1,342**
Net interest income	15	1	128	-*	144
Other income	28	(3)	2	50	77
Total income	**1,067**	**313**	**131**	**52**	**1,563**
Expenses (income)					
In respect of credit losses	4	3	13	(1)	19
Operating expenses (2)	305	151	21	4	481
Sales and marketing expenses	151	53	11	1	216
General and administrative expenses	34	21	7	1	63
Payments to banks	370	6	-	-	376
Total expenses	**864**	**234**	**52**	**5**	**1,155**
Profit before taxes	**203**	**79**	**79**	**47**	**408**
Provision for taxes on profit (2)**	53	23	25	15	116
Profit after taxes	**150**	**56**	**54**	**32**	**292**
The Company's share in profits of associates companies after tax	-	-	-	(-*)	(-*)
Net profit	**150**	**56**	**54**	**32**	**292**
Return on equity (percent net profit out of average capital) (2)	10.8	27.2	12.7	-***	14.3
Average balance of assets (2)	11,396	1,342	2,120	122	14,980
Of which: investments in associated companies	-	-	-	5	5
Average balance of liabilities	307	11,652	353	625	12,937
Average balance of risk assets	7,679	1,136	2,338	119	11,272

* Amount less than NIS 0.5 million.

** Reclassified.

*** Rate higher than 100%.

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

(2) Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 24 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	395	881	1	4	1,281
Inter-segmental fees	571	(571)	-	-	-
Total	966	310	1	4	1,281
Net interest income	24	2	105	2	133
Other income	16	10	1	73	100
Total income	**1,006**	**322**	**107**	**79**	**1,514**
Expenses (income)					
Provision for credit losses	(5)	3	8	1	7
Operating expenses	320	162	21	3	506
Sales and marketing expenses	153	50	10	-	213
General and administrative expenses	39	25	8	-	72
Payments to banks (receipts from banks)	336	(2)	-	1	335
Total expenses	**843**	**238**	**47**	**5**	**1,133**
Profit before taxes	**163**	**84**	**60**	**74**	**381**
Provision for taxes on profit	40	21	15	19	95
Profit after taxes	**123**	**63**	**45**	**55**	**286**
The Company's share in profits of associates after tax	-	-	-	*-	*-
Net profit					
Before attribution to non-controlling interests	123	63	45	55	286
Attributed to non-controlling interests	-	-	-	-	-
Attributed to shareholders of the Company	**123**	**63**	**45**	**55**	**286**
Return on equity (percent net profit out of average capital) (2)	9.9	31.4	13.5	-***	15.9
Average balance of assets (2)	11,219	1,697	1,877	113	14,906
Of which: investments in associated companies	-	-	-	4	4
Average balance of liabilities	799	11,491	310	502	13,102
Average balance of risk-adjusted assets	7,582	1,222	2,039	153	10,996

* Amount less than NIS 0.5 million.
** Reclassified.
*** Rate higher than 100%.
(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 25 – Assets and Liabilities by Linkage Base – Consolidated

Reported amounts

In NIS millions

	December 31, 2015					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	32	4	27	6	-	69
Debtors in respect of credit-card activity, net	14,905	86	92	28	-	15,111
Securities	-	-	-	-	19	19
Investments in associate companies	-	-	-	-	1	1
Buildings and equipment	-	-	-	-	252	252
Other assets	400	4	-	-	37	441
Total assets	**15,337**	**94**	**119**	**34**	**309**	**15,893**
Liabilities						
Credit from banking corporations	308	-	5	10	-	323
Creditors in respect of credit-card activity	11,943	62	108	3	10	12,126
Other liabilities	965	-	13	8	2	988
Total liabilities	**13,216**	**62**	**126**	**21**	**12**	**13,437**
Difference	**2,121**	**32**	**(7)**	**13**	**297**	**2,456**

(1) Including foreign-currency linked.

Note 25 – Assets and Liabilities by Linkage Base – Consolidated (cont.)

Reported amounts

In NIS millions

	December 31, 2014					
	Israeli currency		Foreign currency[(1)]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	206	5	29	8	-	248
Debtors in respect of credit-card activity, net	13,924*	78	71	20	-	14,093
Securities	-	-	-	-	20	20
Investments in associate companies	-	-	-	-	3	3
Buildings and equipment	-	-	-	-	265[(2)]	265
Other assets	364	3	-	-	50[(2)]	417
Total assets	**14,494**	**86**	**100**	**28**	**338**	**15,046**
Liabilities						
Credit from banking corporations	1	-	14	13	-	28
Creditors in respect of credit-card activity	11,832*	58	105	10	10	12,015
Other liabilities	798	-	-	2	2	802
Total liabilities	**12,631**	**58**	**119**	**25**	**12**	**12,845**
Difference	**1,863**	**28**	**(19)**	**3**	**326**	**2,201**

* Reclassified.

(1) Including foreign-currency linked.
(2) Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2015					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Israeli currency (including linked to foreign currency)						
Assets	8,074	2,902	3,111	890	388	122
Liabilities	8,096	2,432	2,179	291	70	6
Difference	**(22)**	**470**	**932**	**599**	**318**	**116**
Foreign currency (3)						
Assets	117	5	9	-	-	-
Liabilities	103	5	3	-	-	-
Difference	**14**	**(-*)**	**6**	**-**	**-**	**-**
Of which: difference in USD	(-*)	2	5	-	-	-
Total						
Assets**	8,191	2,907	3,120	890	388	122
Liabilities	8,199	2,437	2,182	291	70	6
Difference	**(8)**	**470**	**938**	**599**	**318**	**116**
**Of which: debtors in respect of credit-card activity	8,037	2,751	3,068	886	388	119

* Amount less than NIS 0.5 million.

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

(2) As included in Note 25, “Assets and Liabilities by Linkage Base,” including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 17 million (December 31, 2014 - NIS 14 million).

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

					Balance-sheet balance (2)		
Over 4 years and up to 5 years	**Over 5 years and up to 10 years**	**Over 10 years and up to 20 years**	**Over 20 years**	**Total cash flows (1)**	**No maturity date (4)**	**Total**	**Contractual rate of return (5)**
60	4	-	-	15,551	409	15,762	4.16%
16	21	16	12	13,139	118	13,313	0.78%
44	**(17)**	**(16)**	**(12)**	**2,412**	**291**	**2,449**	
-	-	-	-	131	-	131	0.57%
-	3	-	-	114	10	124	-
-	**(3)**	**-**	**-**	**17**	**(10)**	**7**	**-**
-	(3)	-	-	4	(9)	(6)	
60	4	-	-	15,682	409	15,893	4.16%
16	24	16	12	13,253	128	13,437	0.77%
44	**(20)**	**(16)**	**(12)**	**2,429**	**281**	**2,456**	
60	4	-	-	15,313	(4)	15,111	

Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2014					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Israeli currency (including linked to foreign currency)						
Assets	8,016**	2,759	2,803	722	236	62
Liabilities	7,697**	2,278	2,121	334	80	4
Difference	**319**	**481**	**682**	**388**	**156**	**58**
Foreign currency (3)						
Assets	100	10	9	-	-	-
Liabilities	96	5	-	-	-	-
Difference	**4**	**5**	**9**	**-**	**-**	**-**
Of which: difference in USD	(9)	14	9	-	-	-
Total						
Assets**	8,116	2,769	2,812	722	236	62
Liabilities	7,793	2,283	2,121	334	80	4
Difference	**323**	**486**	**691**	**388**	**156**	**58**
**Of which: debtors in respect of credit-card activity	7,788	2,629	2,782	721	232	59

* Amount less than NIS 0.5 million.

** Reclassified.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow.

Data are presented net of the allowance for credit losses.

(2) As included in Note 14, "Assets and Liabilities by Linkage Base," including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 14 million (December 31, 2013 - NIS 15 million).

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

					Balance-sheet balance (2)		
Over 4 years and up to 5 years	**Over 5 years and up to 10 years**	**Over 10 years and up to 20 years**	**Over 20 years**	**Total cash flows (1)**	**No maturity date (4)**	**Total**	**Contractual rate of return (5)**
4	1	-	-	14,603	447	14,940	2.83%
11	13	13	7	12,558	91	12,722	0.51%
(7)	**(12)**	**(13)**	**(7)**	**2,045**	**356**	**2,218**	
-	-	-	-	119	(13)	106	(0.30%)
-	4	-	-	105	18	123	-
-	**(4)**	**-**	**-**	**14**	**(31)**	**(17)**	
-	(4)	-	-	10	(30)	(20)	
4	1	-	-	14,722	434	15,046	2.82%
11	17	13	7	12,663	109	12,845	0.51%
(7)	**(16)**	**(13)**	**(7)**	**2,059**	**325**	**2,201**	
4	1	-	-	14,206	(3)	14,093	

Note 27A – Balance and Fair Value Estimates of Financial Instruments

1. Fair value of financial instruments

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

A “market price” cannot be obtained for the Company’s financial instruments, because no active market exists in which they are traded, with the exception of some securities. The fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

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

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance-sheet date.

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of allowances for credit losses in respect of the debts.

Securities – Tradable securities: at market value in the primary market. Nontradable securities: at cost, net of impairment.

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

Note 27A – Balance and Fair Value Estimates of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments:

	December 31, 2015				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	69	48	21	-	69
Debtors in respect of credit-card activity, net	15,111	-	-	15,097	15,097
Securities (b)	19	12	-	7	19
Other financial assets	267	-	38	229	267
Total financial assets	**15,466***	**60**	**59**	**15,333**	**15,452**
Financial liabilities:					
Credit from banking corporations	323	17	306	-	323
Creditors in respect of credit-card activity	12,116	-	-	12,092	12,092
Other financial liabilities	877	-	131	743	874
Total financial liabilities	**13,316***	**17**	**437**	**12,835**	**13,289**

Note 27A – Balance and Fair Value Estimates of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2014				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	248	40	208	-	248
Debtors in respect of credit-card activity, net	14,093	-	-	14,065	14,065
Securities (b)	20	11	-	9	20
Other financial assets	240	-	45	194	239
Total financial assets	**14,601***	**51**	**253**	**14,268**	**14,572**
Financial liabilities:					
Credit from banking corporations	28	28	-	-	28
Creditors in respect of credit-card activity	12,005	-	-	11,978	11,978
Other financial liabilities	696	-	105	589	694
Total financial liabilities	**12,729***	**28**	**105**	**12,567**	**12,700**

* Of which: assets and liabilities in the amount of NIS 60 million and NIS 17 million, respectively (2014 – assets and liabilities in the amount of NIS 51 million and NIS 28 million, respectively), whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Notes 27B and 27C below.

** Reclassified.

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

(b) Includes shares for which no fair value is available, which are presented at cost, net of impairment, in the amount of NIS 7 million (2014 – NIS 9 million)

Note 27B – Items Measured at Fair Value on a Recurring Basis [(1)] - Consolidated

Reported amounts

In NIS millions

	December 31, 2015		
	Fair-value measurements using:		
	Prices quoted on an active market (Level 1)	Other significant observable inputs (Level 2)	Total fair value
Assets			
Securities available for sale	12	-	12
Total assets	**12**	**-**	**12**
Liabilities			
Liabilities in respect of derivative instruments	-	-*	-*
Total liabilities	**-**	**-***	***-**

	December 31, 2014		
	Fair-value measurements using:		
	Prices quoted on an active market (Level 1)	Other significant observable inputs (Level 2)	Total fair value
Assets			
Securities available for sale	11	-	11
Assets in respect of derivative instruments	-	-*	-*
Total assets	**11**	**-***	**11**
Liabilities			
Liabilities in respect of derivative instruments	-	-*	-*
Total liabilities	**-**	**-***	***-**

* Amount less than NIS 0.5 million.
(1) During the years ended on December 31, 2015 and 2014, there were no transfers from Level 2 to Level 1.

Note 27C – Transfers between Levels 1 and 2 of the Fair Value Hierarchy

During the years 20145 and 2014, the Company had no items not measured at fair value on a recurring basis, except for recognition or a provision for impairment in a non-material amount in the fourth quarter of 2015 and in the third quarter of 2014.

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries

Reported amounts

In NIS millions

A. Balances

	December 31, 2015									
	Interested parties						Related parties			
	Controlling shareholders		Key executives(2)		Others		Associate companies		Others(3)	
	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)
Assets										
Cash on hand and deposits with banks	57	633	-	-	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	222	224	19	19	-	-
Securities	-	-	-	-	-	-	-	-	7	9
Investment in associates							1	3		
Other assets	-	-	-	-	-	-	-	-	-	-
Liabilities										
Credit from banking corporations	92	323	-	-	-	-	-	-	-	-
Creditors in respect of credit activity	71	93	-	-	-	-	-	-	917	917
Other liabilities	3	6	14	14	531	531	-	-	-	-
Shares (included in equity)	-*	-*	-	-	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	17,232	17,492	8	8	-	-	41	43	-	-
Guarantees given by banks	5,555	5,555	-	-	-	-	-	-	-	-
Guarantees given by the Company	13	13	-	-	-	-	-	-	-	-

* Amount less than NIS 0.5 million.

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

(2) The Company began applying Section 80 of the Public Reporting Directives from January 1, 2015.

(3) Based on balances at the end of each month.

(5) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 30 million (highest balance during the year - NIS 44 million).

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2014							
	Interested parties				Related parties			
	Controlling shareholders		Key executives(2)		Associated companies		Others(3)	
	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)
Assets								
Cash on hand and deposits with banks	235	1,202	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-*	-*	1	2	19	108	165	165
Investments	-	-	-	-	3	6	-	-
Other assets	-	-	-	-	1	1	-	-
Liabilities								
Credit from banking corporations	28	50	-	-	-	-	-	-
Creditors in respect of credit card activity	65	77	-	-	-	1	819	819
Other liabilities	6	11	15	15	-	-	433	518
Shares (included in equity)	-*	-*	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	16,997	17,001	10	10	41	71	-	-
Guarantees given by banks	5,404	5,563	-	-	-	-	-	-
Guarantees given by the Company	13	48	-	-	-	-	-	-
Discounting balance with related party	-	-	-	-	-	20	-	-

* Amount less than NIS 0.5 million.

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

(2) Including their close family members, as defined in IAS 24.

(3) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

(4) Based on balances at the end of each month.

(5) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 37 million (highest balance during the year - NIS 37 million).

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2015				
	Interested parties			Related parties	
	Controlling shareholders	Key executives	Others(1)	Associate companies	Others(1)
Income from credit-card transactions	-*	-*	-	-	93
Net interest (expenses) income	(4)	-	-	1	-
Other income	3	-	-	-	-
Operating expenses	(8)	-	23	-	-
Sales and marketing expenses	-	-	-	-	(21)
General and administrative expenses	- (3)	(19)	-	-	-
Payments to banks	(225)	-	-	-	-
Total	**(234)**	**(19)**	**23**	**1**	**72**

	For the year ended December 31, 2014			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associate companies	Others(1)
Income from credit-card transactions	-	-*	-*	94
Net interest (expenses) income	1	-*	7	(-*)
Other income	3	-	-	20
Operating expenses	(7)	-	-	-
General and administrative expenses	- (3)	(21)	-	-
Payments to banks	(225)	-	-	-
Total	**(228)**	**(21)**	**7**	**114**

	For the year ended December 31, 2013			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associate companies	Others(1)
Income from credit-card transactions	-	*-	2	113
Net interest income	1	*-	6(2)	(1)
Other income	4	-	-	19
Operating expenses	(6)	-	-	-
General and administrative expenses	-	(24)	-	-
Payments to banks	(189)	-	-	-
Total	**(190)**	**(24)**	**8**	**131**

* Amount less than NIS 0.5 million.
(1) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.
(3) In respect of credit to merchants.
(4) In addition, in 2015, 2014, and 2013, expenses in respect of current account settlement for professional services, in the amount of NIS 5 million, NIS 6 million, and NIS 4 million, respectively.

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2015			
	Controlling shareholders		Office holders	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	19	20

(1) Of which: short-term employee rights - NIS 13 million; post-employment benefits - NIS 1 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 2 million; share-based payment - NIS 1 million.

	For the year ended December 31, 2014			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	21	23

(1) Of which: short-term employee rights - NIS 15 million; post-employment benefits - less than NIS 0.5 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 4 million; share-based payment - NIS 2 million.

	For the year ended December 31, 2013			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	24	24

(1) Of which: short-term employee rights - NIS 19 million; post-employment benefits - less than NIS 0.5 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 3 million; share-based payment - NIS 1 million.

In addition, in 2015, the Company had salary and related expenses in the amount of approximately NIS 48 million (NIS 45 million and NIS 46 million in the years ended December 31, 2014 and December 31, 2013, respectively) in respect of employees on loan from Bank Hapoalim (2015 - 102 employees, 2014 – 105 employees, 2013 - 107 employees).

D. Information Regarding Transactions and Balances with Related Parties and Interested Parties

- See Notes 20-21 – Employee rights and Share-Based Payment.
- See Note 23 – Contingent Liabilities and Special Agreements.

Note 29 – Events after the Financial Reporting Date

1. On January 31, 2016, the Board of Directors of the Company decided to appoint Dr. Ron Wexler 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 9.(6).A. above.

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

In NIS millions

	December 31	
	2015	**2014(1)**
Total assets	**16,802**	**15,818**
Total liabilities	**14,360**	**13,632**
Equity	**2,442**	**2,186**
Nominal net profit	**252**	**292**

(1) Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Isracard Ltd. and its Consolidated Companies

Corporate Governance Report, Additional Details, and Appendices to the Annual Report

For the year ended December 31, 2015

ISRACARD

List of Tables

The Board of Directors

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 39 meetings of the committees of the Board of Directors were held.

Directors with financial and accounting expertise

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

Dan Alexander Koller

Has served as Chairman 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 Chairman of the board of directors in the following companies: Europay, 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 Chairman 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 (Nechasim) Ltd., Poalim Betvuna Ltd., Poalim Venture Services Israel Ltd., Continental Investment Company Ltd., Sapanut Investments Ltd., Sapanut Poalim Management Ltd., Kadema Poalim Financial Company Ltd., Banad Investment Company Ltd., Tuval Investment Company Ltd., Sapanut Financial Company Ltd., Sapanut Securities Ltd. and Bank Otsar Hahayal Ltd., but does not serve in them today.

Served as Deputy Chairman in Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, but does not serve in it today.

Also served as CEO of Matar Issuance Company Ltd., but does not serve in it today.

B.A. and M.A. (with honors) in Economics and Business Administration from the Hebrew University in Jerusalem

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. D. Koller, he is not a family member of another interested party 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 since February 28, 2011. Chairman of the Audit Committee. Serves as Chairman of the Remuneration Committee and from November 25, 2015, as member of the Risk Management Committee.

In addition, serves as member of the following committees of the Board of Directors of the Company: IT Committee, Credit Committee, and, since July 23 2015, as member of the Risk Management Committee.

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: Europay, Poalim Express and as director in, Avi Idelson Management and Consulting Ltd.

Chairman of the Audit Committee of the Board of Directors of Europay; and as Chairman of the Audit Committee of the Board of Directors of Poalim Express and member of the Credit 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 Balance Sheet, Audit and as head of human resources and special consultant at the BSG Investments Group; and head of human resources 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 series of positions at Bank Hapoalim B.M.: Head of the Planning, Research, and Development Department; Head of the

Human Resources Management Department; and various positions in the areas of training, operations, and human resources.

B.A. in Sociology and Education Administration, Tel Aviv University; M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development.

Courses in banking and management at Bank Hapoalim.

Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University.

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

Eldad Kahana

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

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

Also a member of the Board of Directors and Audit Committee of Europay.

Until July 31, 2013, Head of Central Legal Counsel 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 and member of the Risk Management Committee of the Board of Directors of the Company. Also serves as an external director of the Board of Directors of Europay under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, and as a member of the Audit Committee of the Board of Directors of Europay; and from December 16, 2012, serves as external director of Poalim Express under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. 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.
Nitzana Edvi	Member of the Board of Directors of the Company since May 29, 2012. Also a member of the following committees of the Board of Directors of the Company: the Audit Committee, the Credit Committee, and the Remuneration Committee. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. External director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the board of directors of the following companies: Europay (from May 29, 2012) and Poalim Express (from October 31, 2011). Member of the Audit Committee of the Board of Directors of Europay; 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 the Management of Bank Hapoalim B.M. since September 8, 2009, and from February 8, 2016, serves as Deputy CEO 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 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 Europay from November 25, 2013 to January 21, 2016.

Served as Chairman 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 Chairman of the boards of directors of the following companies: Avoka Investment Company Ltd., BAM"Y Nechasim 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 Sub-Division 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 and as Chairman of the Risk Management Committee of the Board of Directors since January 21, 2015.

Also a member of the board of directors of the following companies: Europay, 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.

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 Member of the Board of Directors of the Company.

Director in the Company since May 2014 and member of the Credit Committee since December 2014 and Chairman of the committee since November 25, 2014.

Also director on the boards of directors of the following companies: Europay, Ashtrom Group Ltd. and Chairman of the audit committee, remuneration committee and balance sheet committee in the Ashtrom Group

Chairman of the Shema -Education and Rehabilitation of Hearing Impaired Children and Youth.

In the last five years or during part of that period, 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 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

Has served 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 last five years or during part of that period, was sub-division Manager in Bank Hapoalim.

Also serves as Chairman of the Board of Directors of Poalit Ltd. and member of the Board of Directors in Europay.

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 and as member of the Risk Management Committee of the Board of Directors since April 15, 2015.

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 39, 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 Europay 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 Europay. 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 Chairman 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 Weksler	CEO of the Company from February 2, 2016.
	Serves as CEO of the following credit card companies: Poalim Express and Europay.
	Serves as Chairman 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, deputy CEO, manager of strategy section 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. 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: Poalim Express and Europay. Subsequent to the balance sheet date, on February 14, 2016, was appointed to serve as a director in the Company and in the said companies.
	Served as Chairman of the boards of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun.
	Served as director on the Board of Directors of Global Factoring Ltd., but no longer serves on it.

In the last five years or during part of that period, served as Manager of Retail Banking Section in Bank Hapoalim, and prior thereto, fulfilled a number of management positions in Bank Hapoalim.

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 Isracard, Poalim Express and Europay from February 14, 2016.

Ll.B. Interdisciplinary College, Herzlia.

B.A. Economics – Hebrew University in Jerusalem.

Holder of investment consulting license – Israel Securities Authority

Holder of license to practice law.

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

Oren Cohen Butensky

Member of Management of the Company since June 2011.

VP of Sales and Customer Service.

Member of the Board of Directors of Tzameret Mimunim Ltd. since April 4, 2012.

Previously served as VP of Sales in the sales company of 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 of Risk Management and Security and Chief Risk Officer.

In the last five years or during part of that period, served as head of the Risk Management Department of the Company

M.B.A., Ben Gurion University; B.Sc., Aeronautics and Space Engineering, Technion.

To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party of the corporation.

Vicky Levi

Member of the Management of the Company since January 1, 2014.

VP of Commerce.

Director on the board of directors of Global Factoring Ltd.

Since 1992, has served in various positions at Bank Hapoalim B.M.

In her previous position, before the beginning of her term of office in 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 of Human Resources.

M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University; B.A. in Social Sciences and Liberal Arts, Open University.

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

Meirav Kalifar Peretz	Member of the Management of the Company from June 1, 2014. VP of 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, 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 of Technology. Graduate of the computer units of the IDF, most recently as commander of the IDF Manpower Computing Center, holding the rank of Colonel. M.A. in Public Administration, Bar Ilan University; B.A. in Computer Science, Economics, and Criminology, Bar Ilan University. Computer technician and computer engineer degree, Technological Training Center. Graduate of the IDF Command and Staff College. Founder and active participant in Bridge of Light – A shared activity of high-tech industry 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 of Credit and Financial Services. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne 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 of Finance and Administration.

Serves as a member of the board of directors of the following companies: Isracard (Nechasim) 1994 and Isracard Mimun.

Previously served as Head of Finance at Harel Finance and as deputy manager of the Corporate Department at the Israel Securities Authority.

M.B.A. (specialized in finance), Hebrew University of Jerusalem; B.A. in Accounting and Economics, Hebrew University of Jerusalem.

Certified Public Accountant

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

Dov Kotler Served as Chief Executive Officer of the Company from February 1, 2009 until January 31, 2015.

Served as CEO of the following credit-card companies: Poalim Express and Europay until January 31, 2015.

Also served Chairman 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 Directors 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 Chairman of the Board of Directors.

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 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 Chairman 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.

The Internal Audit work plan also addresses the activity of subsidiaries.

Auditing resources – Some three auditor positions were invested at the Company and its subsidiaries during 2015. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

Remuneration – Mr. 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 Chairman of the Board of Directors, the Chairman of the Audit Committee, and the CEO of the Company, and are also distributed to the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

Summary of Internal Audit activity – A summary of audit activities for 2014 was submitted to the Company in January 2015. A summary of audit activities for 2015 is expected to be submitted to the Audit Committee during the first quarter of 2016.

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

Disclosure 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 Chairman of the Board of Directors, the CEO of the Company, and the Chief Accountant.

Remuneration of Auditors

Table 1 – Auditors' remuneration (1)(2)

	Consolidated		The Company	
	2015	**2014**	**2015**	**2014**
	(In NIS thousands)			
For audit activities[3]:				
Joint auditors	1,918	1,952	1,798	1,826
Total	1,918	1,952	1,798	1,826
For services connected to the audit				
Joint auditors	259	197	125	56
For tax services[4]:				
Joint auditors	82	160	60	158
For other services[5]:				
Joint auditors	120	112	120	112
Total	461	469	305	326
Total remuneration of auditors	**2,379**	**2,421**	**2,103**	**2,152**

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

(2) Includes remuneration paid and remuneration accrued.

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

(4) Includes tax consulting.

(5) Mainly includes routine processes.

Salaries and Benefits of Officers[1]

Table 2 – Salaries and Benefits of Officers (1)

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

Salaries of Senior Officers for the Year Ended December 31, 2015

							Loans granted under benefit conditions			
	Salary	Bonuses and other payments (4)	Share-based payment transactions (5)	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.	Salary and related expenses	Balance at 31.12.14	Average to maturity (in years)	Granted during the year (6)	Loans Granted under ordinary conditions (7)
Ronen Stein (2)	1,357	1,627	-	246	558	3,788	-	-	-	12
Vicky Levy	817	417	231	171	264	1,900	-	-	-	73
Ron Cohen	759	325	239	38	375	1,736	-	-	-	34
Ronen Zaretsky	772	554	-	70	240	1,636	-	-	-	13
Merav Kalifer Peretz	708	432	71	43	238	1,492	-	-	-	36

Salaries of Senior Officers for the Year Ended December 31, 2014

							Loans granted under benefit conditions			
	Salary	Bonuses and other payments (4)	Share-based payment transactions (5)	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.	Salary and related expenses	Balance at 31.12.14	Average to maturity (in years)	Granted during the year (6)	Loans Granted under ordinary conditions (7)
Dov Kotler (3)	1,293	1,808	399	121	2,388	6,009	-	-	-	62
Vicky Levy	810	351	494	156	356	2,167	-	-	-	43
Ron Cohen	780	297	855	53	118	2,103	-	-	-	27
Ronen Zaretsky	772	460	-	78	269	1,579	-	-	-	23
Ram Gev	705	311	-	12	189	1,217	-	-	-	15

The Chairman of the Board of Directors receives his salary solely from Bank Hapoalim.

Transactions with controlling owners and related parties, see Note 28 to the financial statements above.

1. This table presents the total cost of salaries in the Group in respect of officers appearing above.
2. Mr. Ronen Stein served as CEO of the Company from February 2015 to the end of January 2016.
3. Mr. Dov Kotler ceased to serve as CEO of the Company at the end of January 2015. The various wage costs relating to the cessation of employment included as part of the wage expenses for 2014.
4. Bonuses, as described in Note 20D and E. to the Financial Statements.
5. Share-based payment transactions, as described in Note 21(1)A and 21(1)B to the Financial Statements.
6. Loans granted under terms similar to those offered to all employees of the Company; amounts determined based on uniform criteria.
7. Data represent credit-card balances during the ordinary course of business as at December 31.

For transactions with controlling shareholders and related parties, see Note 28 to the Financial Statements above.

Other details

Structure of Company holdings

Isracard Mimun Ltd. – 100%

Isracard Nechasim (1994) Ltd. - 100%

Europay (Eurocard) Israel Ltd. - 100%

Tzameret Mimunim Ltd. – 100%

Global Factoring Ltd. – 100%

Kidum Mivne Iguach Ltd. – 20%

Life Style Customer Loyalty Club Ltd. - 15%

Life Style Financing Ltd. – 15%

Store Alliance.Com Ltd. – 13%

I.D.D.S. Services Ltd. – 20%

Controlling owner in the Company

Isracard (hereinafter: "**the Company**") is a corporation which was incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: "**the Parent Company**" / "**Bank Hapoalim**"). The holder of the control permit in Bank Hapoalim is Ms. Shari Arison. The Company is an ancillary corporation pursuant to the Banking Law (Licensing), 5741-1981.

Fixed assets

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

The Company's material fixed assets include computers, information systems and infrastructures, communications equipment and peripheral equipment used in the Company's activities. These systems include mainframe computers (including for backup purposes), open systems, hardware, and software used by the Company in its day-to-day operations in issuance and clearing and in operating credit-card arrangements. These systems are in line with the technical specifications defined by the international organizations. For further details, see Note 15 to the financial statements above.

Intangible Assets

The Company owns the trademark, "Isracard", and holds long-term licenses from the international organizations, MasterCard and Visa, to issue and clear MasterCard and Visa credit cards in Israel. In addition, the Company has rights to several trademarks related to credit cards which it issues, clears, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards; imprints, images, or logos appearing on credit cards; the Company's publications; documents used as means of payment and collection; etc.

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

Human Capital

Organizational Structure

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

Company Personnel

Total employee positions at the Company include:

(1) Employees employed under collective agreements and/or personal employment contracts signed with the Company or with Europay.

(2) Employees of Bank Hapoalim on loan to the Company – in addition to labor laws and expansion orders, the terms of employment of the majority of the aforesaid employees on loan are regulated in the Labor Constitution for Workers of Histadrut Institutions, in collective agreements, and in various agreements concerning wage terms and other benefits.

(3) External personnel.

Table 3 – Data of the number of employee positions of the Company in terms of full-time positions

	2015	2014
Average positions on a monthly basis	1,260	1,278
Total positions at year end	1,267	1,311

The number of employees includes positions allocated to other companies in the Group through expense-sharing arrangements.

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

In light of the retroactive implementation of the directives of the Banking Supervision Department regarding the capitalization of software costs, the number of employees has been restated in respect of the effect of employees' positions whose salary has been capitalized to fixed assets. The effect of the retroactive implementation resulted in an increase in salary expenses and, correspondingly, to an increase of 29 positions at the end of 2014. For further details regarding the retroactive implementation, see Note 2C.4 to the financial statements.

Trends in Human Resources

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

During 2015, the Company continued to maintain this policy, through:

1. Labor relations – Stable and quiet labor relations were maintained and a continuing dialog with partners to this system, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Group's objectives.
3. Examination of changes in human-resources policy aimed at achieving improved efficiency and cost savings.
4. Encouragement of employees' efforts to develop innovation, excellence, professional expertise, and success.
5. Involvement and cultivation of satisfaction – encouragement of employees' involvement in and connection to the Company's corporate objectives.
6. Cultivation of employees' sense of belonging to the Company, with an emphasis on values, such as mutual trust and respect. This year, too, the Company offered a range of activities for the well-being of employees and their families throughout the year.
7. Leading organization-wide processes in response to changes and in support of the Group's strategy, including adaptation of recruitment and training processes and guidance of the change with support for managers. Development of an experiential, varied and unique learning environment; adapted to the Company's goals.
8. Continuing the assimilation of the ethical code and addressing the regulatory provisions regarding accessibility and corporate responsibility.
9. Continuing investment in preserving service representatives at the customer-service centers.
10. Raising the value of giving to the community through encouraging volunteering through organizational units, individual activities, and cross-company activities, which includes employees and their families.

Streamlining in the Company

Pursuant to the existing retirement program in Bank Hapoalim, the Company updated the estimate of the leaving rate for employees loaned to the Company from Bank Hapoalim who are expected to retire in the coming periods in the 2015 financial statements under other comprehensive income in an immaterial amount.

Assimilating culture of organizational innovation

This year, too, the Company continued to take steps to assimilate an organizational culture of innovative thinking, through mobilizing the Company's managers and employees on the subject.

The process, this year, began in the exposure of the employees to lectures delivered by leading lecturers in areas of innovation. Further to the process, the employees raised ideas, some of which were presented business plans to the Company management and were approved for continuing development in the business units' work program.

Fostering employee satisfaction and involvement

Again, this year, the Isracard Group was ranked the best credit card company to work in, and in eighteenth place among the best 100 companies to work for in a BDI survey.

The Company routinely conducts a range of activities and initiatives, in collaboration with the various divisions, with the aim of encouraging employee involvement in the Company's activity and operating results. This involvement is reflected in, among other things, increased motivation to improve sales, suggest new ideas for improving processes.

Corporate Responsibility, Ethics and Regulation

The Company continued to take steps in accordance with the work plan in the area of corporate responsibility, as published in the twice-yearly report published last year.

The Isracard Group is committed to values-driven and deferential business conduct with all of our business partners and stakeholders. The Company's ethical code constitutes the Group's value identity card and reflects the unique values and the code of conduct to which we are committed. This year, the assimilation of the ethical code continued among the Company's employees, including new employees.

During the year, we took steps towards the accessibility of the Group's marketing websites, as a part of implementing the work done last year, which was intended to adapt the Company to comply with the accessibility regulations in the area of structure, infrastructure, and environment and in the area of service. The work program complies with the 2015 accessibility regulations.

Organizational Development and Professional Training

As strategic partners guiding and supporting achievement of the objectives of the organization as a whole, including the business units within it, a targeted training program has been created for each business unit, including targeted plans for employees, based on the needs which have been recognized.

In 2015, we placed emphasis on adapting training to the changing challenges and business environment; improvement of service and sales skills of service representatives; assimilation of new products and services. The Company also worked on training and enhancing the knowledge of employees and executives in various roles: and providing tools encouraging creativity and openness to innovation; imparting sales skills to various groups within the Company and providing in-depth professional knowledge

Occupational Stability

Employee retention in general, particularly those in the call centers, was a focus of joint work by the business units and the human resources units. The duration of employment of service representatives at the various call centers is high, thanks to a deeper strategic partnership with the service and sales departments.

Promotion of Diversity

The Company has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2015, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, open to others and to those who are different, and the creation of a tolerant and dignified community of employees.

Isracard in the Community

As the leading company in its field in Israel, the Company considers itself committed to giving back to the community and gives special attention to promoting the generation of the future and the empowerment of women and to strengthening weak and needy and varied populations in Israeli society. The Company is taking steps in continuing to increase the awareness of its employees of the subject of social involvement and encourages them to undertake volunteering activity, from the perception that the added value from giving back to the community is strengthening the "team pride" and the sense of cohesion among employees with the Company.

Involvement in the community is reflected in a wide range of activities and monetary donations by the Company and volunteering activity of employees, including:

Telethons sponsored by Isracard with the participation of employees and their families for the "Larger Than Life" Association using the Company's call-center service.

Volunteering activity of employees and their families with the "Birthday Angels" Association.

Festive meals for Holocaust survivors at Isracard House, with the participation of the Company's employees and in conjunction with the "Latet" Association.

An annual contribution of the employees and Company management for giving to the community organized by the "Matan - Your Way to Give" Organization.

Adoption of a Nahal patrol battalion as part of the "Adopt a Fighter" project, and giving regular support to the welfare of the battalion and its solders. This project is in its eleventh year.

Round Up for Good – Simply to do good – the Isracard Group takes steps to raise public awareness to contributing to the community and assists the activity of the "Round Up for Good" Association, which enable the public to round up any transaction by credit card and to donate the difference to the association or a cause close to the donor's heart.

Material agreements

One of the main projects in which Isracard is engaged is the planning and execution of transferring the Company's principal computer site to a new site. This transfer will improve the protection and survivability option of the Company's main computer. The site to which the main computer will be transferred is a subterranean site protected against severe reference scenarios defined and approved by the Home Command. The site is operated remotely using advanced control and review monitoring systems.

The Company has signed an agreement with a related company for renting the site for 10 years with an option to extend for a further period of 10 years.

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

Restrictions, legislation, regulations and special material constraints

Restrictions and supervision on the Company's activity

As a company engaged in the issue and clearing of charge cards, in the operation of a charge card system and granting credit, the Company is subject to laws and directives in connection with activity in these areas. These laws impose obligations and restrictions on the activities of credit card companies, including the Company, in the areas of issuing and clearing charge cards. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, (Debit Cards) which regularizes the activity of credit-card companies, which are ancillary banking corporations, and of banking corporations, for the purpose of operating a debit card system. In addition, credit card companies are subject to the provisions of other Proper Conduct of Banking Management Regulations from the File of Proper Conduct of Banking Management Regulations.

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

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

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

Below is reference to a number of relevant regulatory provisions for the report period having an impact on the Company's activity:

a. Antitrust issues – see Note 23C.1 to the financial statements above.

b. Regulatory initiatives – See Note 23C.2 to the financial statements above.

c. Legal proceedings and contingencies – See Note 23D to the financial statements above.

Description of the Company's business by operating segments

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

Credit card issuance segment

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services. As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, 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. (hereinafter: "**Mizrahi Tefahot**"), Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., Union Bank Ltd. and U-Bank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. During the year, the Company renewed agreements with a number of clubs. With regard to regulatory influences on the segment, see also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under 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. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Contractual Arrangements with Banking Corporations

The various agreements of the Company 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) registration of new customers (who do not have credit cards or who have credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition over the "wallet" of cardholders (who may hold charge cards issued by several companies), with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of products issued by the Company and/or increasing the volume of use of such products; 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," above.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to address the requirements of the Company's customer segments and the needs of market, 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) the Company and Europay are leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled and experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) 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

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 and 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 opinion of the Company, the main critical success factors in the Clearing Segment are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to 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, an operational system, and large-scale advertising and marketing; (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. Bank credit, discounting and credit from additional non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Competition

The credit-card clearing field is characterized by a very high level of competition.

For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above.

Isracard cards were opened for cross-clearing in May 2012. For further details on this matter, see the section “Restrictions and Supervision of the Company's Operations,” below. Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

Another aspect of competition in the clearing sector is focused on the development of financial and operational products and services for merchants. Credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services, such as flexible crediting dates and joint sales-promotion campaigns for the credit-card company and the merchant.

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

Positive factors affecting the Company's competitive standing include the following, among others: (1) 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; (2) a brand with presence and power; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services;

During 2015, a number of services and products were developed and launched, adapted to the requirements of the business customers,, such as (a) "My Internet Store" venture (a collaboration with a third party) which enables merchants to construct a complete Internet sales site by communication to another factor, (b) the MasterPass product – a means of payment for Internet transactions which permits secure payment to be made speedily by entering a user name and password, without entering full credit card details, (c) a kindergarten payment product which allows card holders to pay an educational institution via credit card, etc. and (5) a robust capital structure and positive cash flow.

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.

The Financing Segment

The Financing Segment serves the customers of the Company and of other companies, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability.

The Financing Segment comprises two sub-groups determined according to the nature of the customer's activity: consumer credit for private customers, usually with relatively low volumes of financial activity; and corporate credit for businesses, whose credit needs are usually related to financing of their business operations. The types of credit products offered to these two groups naturally differ.

Consumer credit activity is primarily conducted through proactive marketing and advertising, offering the range of credit products for private customers. Products such as financing of vehicle purchases are usually marketed by related companies and/or through collaborations with other companies. Activities in this sector also include credit financing in discounting transactions.

Legislative Restrictions, Regulation, and Special Constraints Applicable to the Segment

The Company operates under laws, standards, and regulatory directives applicable to the banking system and to credit-card companies in Israel, such as directives of the Supervisor of Banks, the Antitrust Commissioner, and more.

The following limits apply to the volume of credit, pursuant to the Proper Conduct of Banking Business Directives:

Transactions with related persons – Pursuant to Proper Conduct of Banking Business Directive No. 312, "Business of a Banking (Auxiliary) Corporation with Related Persons," among other matters, a limit applies to the Company such that the total "indebtedness to a banking (auxiliary) corporation" , as this term is defined in the aforesaid directive, excluding certain amounts, of all "related persons" of the Company, as defined in the directive, shall not exceed a total equal to 10% of the capital of the auxiliary banking corporation (as defined in Proper Conduct of Banking Business Directive No. 202 concerning capital components).

Limit on indebtedness of borrowers and borrower groups – Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and of Borrower Groups," among other matters, a limit applies to the Company such that the rate of the "indebtedness" of a "borrower" and of a "borrower group," as defined in the directive, after deducting the deductible amounts from the indebtedness, in accordance with the directive, shall not exceed 15% and 25%, respectively, of the capital of the Company, calculated according to Proper Conduct of Banking Business Directive No. 202 concerning capital components.

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, from time to time, the Board of Directors of the Company establishes limits on credit concentration in certain sectors of the economy, and a limit on the maximum exposure to a single borrower, as well as according to the credit risk of the borrower, as expressed in the internal rating system.

The Company's credit policy is approved annually by the Board of Directors.

Critical success factors in the operating segment - In the opinion of the Company, the main critical success factors in the Financing Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) matching of a relevant product offering to customers; (2) available sources of financing and the ability to raise capital; (3) management and development of a retail system that is available and accessible to customers, with an emphasis on the direct channels, in order to improve professional service, response times, etc.; (4) a system of risk management and credit controls; (5) an adequate system of controls in order to reduce risks; (6) collaborations with various business partners in the Israeli economy in the provision of financial services; (7) experienced, high-quality human capital; and (8) an operational system including advanced information systems, technologies, and infrastructures.

Key entry barriers in the operating segment - The key entry barriers in the Financing Segment are the following: (1) the need for financial resources, sources of credit, experience, and extensive knowledge in order to perform the required investments in the operating, financing, advertising, and marketing system and extensive investments in technological infrastructures; (2) the development and management of a credit rating and credit control system, and the collection of information allowing a risk level to be assigned to each customer; (3) the need for capital in order to comply with the directives of the Supervisor of Banks with regard to the ratio of capital to risk-adjusted assets; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

Alternatives for the products of the operating segment - Credit services and loans provided by various parties in the economy, either through banks or through other financial operators, serve as substitutes for the credit and financing services provided by the Company.

Competition

The Financing Segment is characterized by a high level of competition, encompassing banking institutions and other financial entities, such as finance companies, insurance companies, other credit-card companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required credit, and speed of response.

Other segment

This segment includes all of the other activities which do not belong to the issuance, clearing and/or financing segments, each of which amounts to a reportable segment, including: operation of the credit card system which the Company provides to a fellow subsidiary, which issues and clears American Express-type credit cards; activity of Isracard Nechasim; and the Company's activity in the area of securing the repayment and discounting of travelers' cheques, clearing previously issued Visa-type travelers' cheques, and income from the sale of the shares of MC.

Dan Koller`	**Ron Wexler**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2016

Appendices to the Annual Report

Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses

Reported amounts

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	184	-*	-	676	3	0.44	686	5	0.73
Debtors in respect of credit-card activity(3)	2,485	168	6.76	1,903	132	6.94	1,645	130	7.90
Other assets	216	12	5.56	165	10	6.06	148	10	6.76
Total interest-bearing assets	**2,885**	**180**	**6.24**	**2,744**	**145**	**5.28**	**2,479**	**145**	**5.85**
Non-interest-bearing debtors in respect of credit cards	11,990			11,803			11,993		
Other non-interest-bearing assets(4)	455			433			434		
Total assets	**15,330**			**14,980**			**14,906**		

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Includes derivative instruments and non-monetary assets; net of the allowance for credit losses.

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

Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	85	(6)	(7.06)	35	(-*)	-	30	(10)	(33.33)
Subordinated notes	-	-	-	-	-	-	26	(1)	(3.85)
Other liabilities	464	(-*)	-	472	(1)	(0.21)	420	(1)	(0.24)
Total interest-bearing liabilities	**549**	**(6)**	**(1.09)**	**507**	**(1)**	**(0.20)**	**476**	**(12)**	**(2.52)**
Non-interest-bearing creditors in respect of credit cards	12,032			12,033			12,265		
Other non-interest-bearing liabilities(3)	428			396			361		
Total liabilities	13,009			12,936			13,102		
Total capital means	2,321			2,044			1,804		
Total liabilities and capital means	**15,330**			**14,980**			**14,906**		
Interest margin			5.15			5.08			3.33
Net return on interest-bearing assets in Israel	2,885	174	6.03	2,744	144	5.25	2,479	133	5.37

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

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

Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Average Balances and Interest Rates – Additional Information Regarding Interest-Bearing Assets and Liabilities Attributed to Activity in Israel

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	2,867	180	6.28	2,727	145	5.32	2,462	145	5.89
Total interest-bearing liabilities	516	(6)	(1.16)	485	(1)	(0.21)	459	(12)	(2.61)
Interest margin			5.12			5.11			3.28
CPI-linked Israeli currency									
Total interest-bearing assets	8	-*	-	8	-*	-	9	*-	-
Total interest-bearing liabilities	-	-	-	-	-	-	-	-	-
Interest margin			-			-			-
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	10	-*	-	9	-*	-	8	*-	-
Total interest-bearing liabilities	33	(-*)	-	22	(-*)	-	17	(*-)	-
Interest margin			-			-			-
Total activity in Israel									
Total interest-bearing assets	2,885	180	6.24	2,744	145	5.28	2,479	145	5.85
Total interest-bearing liabilities	549	(6)	(1.09)	507	(1)	(0.20)	476	(12)	(2.52)
Interest margin			**5.15**			**5.08**			**3.33**

* Amount less than NIS 0.5 million.
(1) Based on balances at the beginning of each month.

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

Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Reported amounts

Analysis of Changes in Interest Income and Interest Expenses

Year ended December 31, 2015 against year ended December 31, 2014

	Increase (decrease) due to change(1)		
	Quantity	**Price**	**Net change**
		In NIS millions	
Interest-bearing assets(2)			
Cash on hand and deposits with banks	(-*)	(3)	(3)
Debtors in respect of credit-card activity	39	(3)	36
Other interest-bearing assets	3	(1)	2
Total interest income	42	(7)	35
Interest-bearing liabilities(2)			
Credit from banking corporations	4	2	6
Subordinated notes	-	-	-
Other interest-bearing liabilities	(-*)	(1)	(1)
Total interest expenses	4	1	5

Year ended December 31, 2014 versus year ended December 31, 2013

	Increase (decrease) due to change(1)		
	Quantity	Price	Net change
	In NIS millions		
Interest-bearing assets[(2)]			
Cash on hand and deposits with banks	(-*)	(2)	(2)
Debtors in respect of credit-card activity	18	(16)	2
Other interest-bearing assets	1	(1)	-*
Total interest income	19	(19)	(-*)
Interest-bearing liabilities[(2)]			
Credit from banking corporations	-*	(10)	(10)
Subordinated notes	(1)	-	(1)
Other interest-bearing liabilities	-*	(-*)	(-*)
Total interest expenses	(1)	(10)	(11)

* Amount lower than NIS 0.5 million.

(1) The change in quantity was calculated by multiplying the difference between the average balances in each period by the rate of income/expense for the period. The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

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

Table 5 - Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

Reported amounts

In NIS millions

	2015			
	Q4	Q3	Q2	Q1
Income				
From credit-card transactions	345	359	329	326
Net interest income	50	45	41	38
Other income	12	8	18	19
Total income	**407**	**412**	**388**	**383**
Expenses (income)				
In respect of credit losses	14	5	1	12
Operating expenses	148	132	125	124**
Sales and marketing expenses	57	67	48	63
General and administrative expenses	17	16	13	15
Payments to banks	101	93	88	90
Total expenses	**337**	**313**	**275**	**304**
Profit before taxes	**70**	**99**	**113**	**79**
Provision for taxes on profit	21	31	33	23**
Profit after taxes	**49**	**68**	**80**	**56**
The Company's share in profits of associates after effect of tax	-*	(2)	-*	-*
Net profit	**49**	**66**	**80**	**56**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**67**	**90**	**109**	**76**

* Amount lower than NIS 0.5 million.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Table 5 - Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data (cont.)

Reported amounts

In NIS millions

	2014			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	338	343	336	325
Net interest income	43	35	34	32
Other income	19	13	19	26
Total income	**400**	**391**	**389**	**383**
Expenses (income)				
In respect of credit losses	10	5	1	3
Operating expenses	117	117	127	120
Sales and marketing expenses	62	61	46	47
General and administrative expenses	18	15	14	16
Payments to banks	94	97	94	91
Total expenses	**301**	**295**	**282**	**277**
Profit before taxes	**99**	**96**	**107**	**106**
Provision for taxes on profit	26**	31**	30**	29**
Profit after taxes	**73**	**65**	**77**	**77**
The Company's share in profits of associate companies after effect of tax	(-*)	1	(1)	(-*)
Net profit	**73**	**66**	**76**	**77**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**99**	**89**	**104**	**104**

* Amount lower than NIS 0.5 million.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above.

Table 6 - Consolidated Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

Reported amounts

In NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	69	65	62	247
Debtors in respect of credit-card activity	15,223	14,754	14,471	14,602
Allowance for credit losses	(112)	(107)	(105)	(109)
Debtors in respect of credit-card activity, net	**15,111**	**14,647**	**14,366**	**14,493**
Securities	19	20	20	20
Investments in associate companies	1	1	3	3
Buildings and equipment	252	260	273	272
Other assets	441	425	420	463
Total assets	**15,893**	**15,418**	**15,144**	**15,498**
Liabilities				
Credit from banking corporations	323	323	34	28
Creditors in respect of credit-card activity	12,126	11,833	11,894	12,273
Other liabilities	988	853	874	943
Total liabilities	**13,437**	**13,009**	**12,802**	**13,244**
Equity attributed to shareholders of the Company	2,456	2,409	2,342	2,254
Total capital	**2,456**	**2,409**	**2,342**	**2,254**
Total liabilities and capital	**15,893**	**15,418**	**15,144**	**15,498**

Table 6 - Consolidated Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

Reported amounts

In NIS millions

	2014			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	248	389	566	675
Debtors in respect of credit-card activity	14,192*	14,292	13,723	13,467*
Allowance for credit losses	(99)	(91)	(87)	(87)
Debtors in respect of credit-card activity, net	**14,093**	**14,201**	**13,636**	**13,380**
Securities	20	18	19	19
Investments in associate companies	3	5	5	5
Buildings and equipment	265**	260**	255**	251**
Other assets	417**	394**	338**	338**
Total assets	**15,046**	**15,267**	**14,819**	**14,668**
Liabilities				
Credit from banking corporations	28	27	28	32
Creditors in respect of credit-card activity	12,015*	12,224	11,872	11,771*
Other liabilities	802	890	861	884
Total liabilities	**12,845**	**13,141**	**12,761**	**12,687**
Equity attributed to shareholders of the Company	2,201**	2,126**	2,058**	1,981**
Total capital	**2,201**	**2,126**	**2,058**	**1,981**
Total liabilities and capital	**15,046**	**15,267**	**14,819**	**14,668**

* Reclassified.

** Restated in light of retroactive implementation of the Banking Supervision Department's instructions on the capitalization of software costs. For further details, see Note 2.C.4. above