Europay (Eurocard) Israel Ltd.

Annual Report

For the year ended December 31, 2014

ISRACARD GROUP

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ISRACARD GROUP

Board of Directors' Report on the Financial Statements as at December 31, 2013

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

Mr. Dan Koller serves as Director and Chairman of the Board of Directors of the Company, replacing Mr. Shimon Gal who retired from his position as Director and Chairman of the Board of Directors in July 2014.

Mr. Dov Kotler, Chief Executive Officer of the companies in the Isracard Group (Isracard Ltd., Poalim Express Ltd., Europay (Eurocard) Ltd.), ceased to serve in his position on January 31, 2015, after a term of office of six years, with the end of his contract of employment. Mr. Ronen Stein was appointed Chief Executive Officer and has served in this position since February 1, 2015.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1972 as a private company. In July 2009, control of the Company was transferred from Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**") to Isracard Ltd. (hereinafter: "**Isracard**"), which is controlled by Bank Hapoalim.

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

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

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

The Company is part of the Isracard Group, which also includes the following companies: Isracard, Poalim Express Ltd. (hereinafter: "**Poalim Express**").

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

Following the distribution of the dividend, Isracard acquired 7,699 common shares from Mizrahi Bank, constituting 1.8% of the issued and paid-up common share capital of the Company. Following the completion of this transaction, Isracard holds 100% of the shares of the Company.

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

Developments in the Global Economy

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

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

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

The Israeli Economy

Economic Activity in Israel

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

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

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

Fiscal and Monetary Policy

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

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

Inflation and Exchange Rates

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

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

The Credit-Card Industry in Israel

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

Isracard credit cards; and (6) Diners Club Israel Ltd. (hereinafter: "**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and clears Diners credit cards.

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

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

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

Profit and Profitability

The loss of the Company in 2014 totaled NIS 6 million, compared with a loss of NIS 5 million in 2013.

The return of the loss before taxes on average equity reached a negative return of 126% in 2014, compared with a negative return of 115% in 2013.

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Developments in Balance-Sheet Items

The balance sheet totaled NIS 3 million on December 31, 2014, compared with NIS 2 million at the end of 2013.

Equity as at December 31, 2014 totaled NIS 3 million, compared with NIS 2 million on December 31, 2013.

The ratio of equity to the balance sheet reached 100% on December 31, 2014, similar to December 31, 2013.

The ratio of capital to risk-adjusted assets under the capital measurement and adequacy directives reached 300% on December 31, 2014 according to Basel III and 100% on December 31, 2013 according to Basel II..

The minimum capital ratio required by the Bank of Israel is 9%.

For further details, see chapter on Measurement and Capital Adequacy, Capital Adequacy Target, below.

Description of the Company's Business

Credit-Card Issuance

General

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services. As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Poalim Express, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

Bank cards issued by the Company and Isracard are distributed to owners of accounts at banks with which the Company and Isracard have agreements, including Bank Hapoalim, Mizrahi-Tefahot Bank Ltd., Bank Yahav for Government Employees Ltd. ("**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. During the year, the Company renewed agreements with a number of clubs. With regard to the regulatory effects on the segment, see also "Restrictions and Supervision of the Company's Operations," below.

As noted, Isracard administers and operates credit-card issuance and clearing activity on behalf of the Company.

Critical success factors in the operating segment - In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under an international license; (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 scale advantage.

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 for receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and investments in technological infrastructures, including 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 prepaid cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Products and Services

The Company, jointly with Isracard, issues credit cards that combine the Isracard and MasterCard brands. The cards are issued by the Company for use abroad and by Isracard for use in Israel. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally. In addition, the various additional products and services offered through Isracard include More brand revolving credit cards, allowing cardholders to determine the terms of repayment; loans for specific purposes for private and business customers; various credit plans based on Isracredit plans; various types of all-purpose loans based on credit facilities in credit cards; various options for spreading payments; and information services and certifications.

Contractual Arrangements with Banking Corporations

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

Customers – Cardholders

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

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

Marketing and Distribution

The Company's marketing activity in the area of credit card issuance is conducted through Isracard, which administers and operates credit card issuance activity on behalf of the Company, 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 a sales center (internal and external), direct mail, salespeople, the website, and more.

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, cards for Rafael Advanced Defense Systems Ltd., cards of retail chains, etc. During the year, the Company established the "Rami Levi" Social Club.

Competition

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

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company/Isracard, 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 and Isracard, while increasing the mix of products issued by the Company and Isracard and/or increasing the volume of use of such products; and (3) offers of non-bank credit services through revolving credit cards or through loans for cardholders, as an addition and/or alternative to credit granted by banks and other financial institutions.

For details regarding the credit-card companies operating in Israel, see the section "The Credit-Card Industry in Israel," above.

In order to cope with competition in the field, the Company, through Isracard, which administers and operates credit-card issuance activity on behalf of the Company, takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to supply the requirements of the customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks; (3) reinforcement of 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.

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

Negative factors affecting the Company's competitive standing include, among others: significant regulatory changes; technological improvements that create the possibility of development of alternative means of payment in areas such as payments through cellular phones, which may cause a decline in the demand for credit card issuance; and the entry of retail and other entities into the issuance field and/or expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

Credit Card Clearing

General

In clearing services, the clearing credit card company makes a commitment to merchants that subject to compliance with the terms of the agreement between them, the debits incurred by holders of cards cleared by the clearer when purchasing goods or services from the merchants will be settled by the clearer. The clearer accumulates debits for transactions executed in the credit cards cleared by the clearer with a particular merchant that has signed a clearing agreement with it, in return for a fee (called the "**merchant fee**"), and secures and transfers to the merchant the payments incurred by the credit card holders who executed transactions using credit cards with that merchant.

As at the date of the report, several credit card companies operate in the credit card clearing segment in Israel: the Company, Isracard, Poalim Express, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

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

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

Critical success factors in the operating segment, and changes therein. In the opinion of the Company, the main critical success factors in the Clearing Segment are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to customers of the Clearing Segment – merchants – and the ability to recruit and retain merchants through a targeted sales and marketing system; (6) provision of related services to merchants, including various financial, and operational services; (7) operational efficiency 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 are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license, including one from international organizations to clear the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a communications system to allow the operation of clearing; (4) a need to perform clearing services on a large scale in order to recover the investment in infrastructures, clearing systems, and other costs; (5) development of a reliable information system for account settlement; and (6) a sales, recruitment, and customer service system.

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

Products and Services

The Company clears transactions executed with merchants that have agreements with it, in Israel, using MasterCard cards issued abroad by members of the MasterCard Organization, in foreign currency, and paid to the merchant in foreign currency, mainly in return for a merchant fee, as noted above. Isracard administers and operates credit card clearing activity on behalf of the Company.

In addition, the Company offers services, through Isracard, such as information regarding credits of the merchant, joint advertising campaigns, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants relevant to the Company are allocated to the Company's activity. The main income and expense items are in accordance with the Company's agreement with Isracard for the management and operation of credit card issuance and clearing activity.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it. As at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of the total revenues of the Company and Isracard in 2014.

Marketing and Sales

The Company's marketing and sales activity in the Credit Card Clearing Segment is conducted through Isracard (which manages and operates credit card issuance and clearing activities on behalf of the Company), based on the principle of focusing on merchants' needs, through a targeted sales and support system.

The Company's key objectives in its marketing activity in this area are: (1) to retain merchants as customers by providing marketing and operational services, including information regarding past and future credits of the merchant, advertising campaigns and unique marketing information, benefits, and programs at a high level of service; (2) to strengthen image; and (3) to recruit new merchants.

The Company operates a website designed for its business clients at www.isracard.co.il, which provides financial information regarding the merchant's credits and expanded business information, among other matters, and allows credit applications to be filed.

Competition

The credit card clearing field is characterized by a very high level of competition.

For a list of credit card companies operating in this area in Israel, see "The Credit Card Industry in Israel," above.

Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

Another aspect of competition in the clearing sector is focused on the development of financial and operational products and services for merchants. The credit card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services.

In order to cope with the competition in this area, the Company, through Isracard, which administers and operates credit card clearing activity on behalf of the Company, takes the following main actions: (1) a competitive, prudent fee policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to the merchant's unique needs; and (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the MasterCard Organization for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit card issuance and clearing activity; (3) a marketing, sales, and service system specializing in providing merchants with appropriate solutions and containing professional, skilled, experienced human capital; (4) a brand with presence and power; (5) an advanced technological infrastructure allowing response to the needs of the various merchants; and (6) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, 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.

Seasonality

Credit card transactions (issuance and clearing) are linked directly to private consumption and seasonality in Israel, as well as to the seasonality and rate of incoming tourism to Israel.

Intangible Assets

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

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

Human Capital

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

Service Providers

Isracard – An arrangement is in place between the Company and Isracard, under which Isracard administers and operates credit card issuance and clearing activity on behalf of the Company.

Financing

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

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

Taxation

Changes in Tax Rates

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

National Insurance

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

For further details, see Note 7 to the financial statements.

Restrictions and Supervision of the Company's Operations

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

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

The aforesaid laws and directives extensively affect the conduct of the Company's business (similar to other credit card companies), including its contractual engagements, its manner of conduct, and the management of its financial resources.

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

Antitrust Issues

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

Pursuant to an arrangement between the Company and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the “Arrangement”), the average issuer fee stood at 0.735% as of July 1, 2013, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

Additional Regulation

1. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit card company, as detailed in the instruction. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Proper Conduct of Banking Business Directive No. 313).

2. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions which will be considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill. In February and April 2014, the Constitution Committee held discussions in preparation for a second and third reading. In December 2014, the Knesset plenum approved the bill in a second and third reading.
3. In September 2013, the Supervisor of Banks issued a circular concerning early publication of financial statements to the public, and updated the Public Reporting Directives on this matter. Pursuant to the directive, banking corporations and credit-card companies will be required to make a gradual change such that by 2016 their quarterly financial statements are published no later than 45 days from the end of the quarter, and their annual financial statements are published no later than two months from the end of the year.
4. In September 2013, the Banking Supervision Department published a directive concerning reduction or increase of interest rates, pursuant to which for floating-rate loans (including credit facilities for charge cards) granted to an "individual" or a "small business," when the interest rate on the loan changes, the banking corporation must apply the same reduction or increase to the base interest rate that applied when the loan was granted. In April 2014, the Banking Supervision Department published a file of questions and answers in connection with the directive.
5. In October 2013, the Constitution, Law and Justice Committee approved various amendments to the Prohibition on Money Laundering Law and the Prohibition of Terrorism Financing Order applicable to banking corporations, including rules on the subject of the "Know Your Customer" procedure. In February 2014, the amendment to the order was published in the Official Gazette of the Israeli Government.
6. In November 2013, a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Pillar 3 of Basel II – Disclosure Requirements Concerning Remuneration" was issued. The new disclosure requirements are intended to support effective market discipline and allow market users to estimate the quality of remuneration methods and the manner in which they support the strategy and risk position of banking corporations.
7. In November 2013, the Banking Supervision Department issued a directive concerning remuneration policy in banking corporations. The directive establishes rules which are aimed at ensuring that remuneration arrangements at banking corporations are consistent with their risk-management system and long-term goals. Accordingly, relevant amendments were made to the Proper Conduct of Banking Business Directive concerning the Board of Directors. In March 2014, the Banking Supervision Department approved that private subsidiaries of banking corporations should formulate remuneration policy in accordance with the directive no later than September 30, 2014.

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

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

10. In September 2014, a circular was published by the Banking Supervision Department on the topic of Proper Conduct of Banking Business Directive no. 221 "Liquidity Coverage Ratio". At this stage, credit card companies are not required to comply with the circular and they will continue to meet the requirements of Proper Conduct of Banking Business Directive no. 342. Further, credit card companies will be required to comply with a regulatory quantitative model which will be adapted for the characteristics of their activity. In addition, in September 2014, a circular was published by the Bank of Israel on the subject, Temporary Directive – Implementation of the Disclosure Requirements according to Pillar 3 of Basel – Disclosure in respect of liquidity coverage ratio, according to which banking corporations and credit card companies are required to provide disclosure in respect of liquidity coverage ratio in the financial statements. The effective date of the directive has been set at April 1, 2015. Further, a credit card company must include quantitative and qualitative disclosure with regard to liquidity risk, according to the way in this risk is managed in a company. At this stage, the Company is examining the implications of the directive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legal Proceedings and Contingent Liabilities

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

2. Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The 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.

Objectives and Business Strategy

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

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

Risk Management Policy

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

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

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

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

Operational risks

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

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

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

The Company's market risk management policy is based on common practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Measurement and Capital Adequacy") regarding market risk management, and Directive No. 339, "Market and Interest Rate Risk" and Directive 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 basic risk management document.

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

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

In order to implement the requirements of the market risk management policy, Isracard, which administers and operates the Company's operations, as noted above, uses a dedicated automated asset and liability management system. The Company believes that its exposure to market risks is immaterial.

A. Linkage Base Risk

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

The Company applies a comprehensive policy for the management of market risks in Israeli and foreign currency, designed to support the achievement of business objectives while assessing and limiting the losses that may arise from exposure to market risks.

B. Interest-Rate Exposure

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

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

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

C. Exposure to the Value of Securities

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

No transactions in securities were executed during the reported year.

D. Derivative Financial Instruments

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

The only activity in derivative financial instruments permitted to the Company is for the purposes of economic hedging.

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

2. Liquidity Risk Exposure and Management

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

Liquidity risk includes the following risks:

Liquidity raising risk – Risk arising from damage to the ability of the Company to raise liquidity, as a result of a loss of confidence in the Company by the market, which may result from events of damage to its reputation or damage to the market in which the Company operates.

Market liquidity risk – Risk arising from a comprehensive crisis in the markets, leading to a credit crunch, without connection to the Company's performance.

Risk of impairment of liquid assets – Exposure to risk as a result of erosion of the value of liquid assets, which may damage the ability of the corporation to finance liquidity gaps.

The Company implements a comprehensive liquidity risk management policy, which was approved by the Board of Directors in May 2014. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Measurement and Capital Adequacy") and Proper Conduct of Banking Business Directive No. 342 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

This policy is achieved by maintaining routine monitoring of the liquidity position of the Company through the use of an internal liquidity risk management model, monitoring of the indicator system for the identification of liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current flow management. The disposable capital of the Company is used to give credit to cardholders and merchants, and invested in deposits with banks in NIS.

Liquidity risks at the Company are managed by the Head of Finance and Administration.

Credit Risk

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

The Company's credit policy is approved each year by the Board of Directors of the Company.

The credit policy addresses principles for granting credit, the type of exposure in each segment of activity, quantitative and qualitative exposure limits, credit concentration, pricing and collateral, handling customers experiencing difficulties, and the hierarchy of credit-granting authority.

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

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

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

Isracard monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Supervisor Reporting Directive No. 815 of the Supervisor of Banks for the Company.

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

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

As at the reporting date, the Company does not grant credit.

Credit Control Department

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

Measurement and Capital Adequacy

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

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

Adoption of the Basel III directives

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

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

- Components of regulatory capital

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

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

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

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

Minimum capital ratios

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

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

Capital adequacy target

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

The Company's capital adequacy targets are as follows:

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

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

Risk Appetite

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

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

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

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

Guiding Principles in Capital Management

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

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

Capital adequacy

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

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

Applicability of Implementation

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

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

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

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financial statements and between the capital components (Appendices B + C)		

Effect of adoption of Basel III directives at January 1, 2014

In the 2013 Financial Statements, banks and credit card companies were required to include disclosure regarding the expected effect of the implementation of the Basel III directives. The said directives do not affect the Company's capital ratios, capital or risk assets.

Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2014	December 31, 2013
	In NIS millions	
Core capital and Tier 1 capital	3 (4)	2
Total overall capital	3	2

2. Weighted balances of risk assets

	December 31, 2014		December 31, 2013	
	Basel III (1)		Basel II (2)	
	Weighted balances of risk assets	Capital requirement	Weighted balances of risk assets	Capital requirement
	In NIS millions			
Credit risk	1	*-	1	*-
Operational risk	-	*-	1	*-
Total weighted balances of risk-adjusted assets	**1**	***-**	**2**	***-**

* Amount less than NIS 0.5 million.

3. Ratio of capital to risk assets

	December 31

	2014	2013
	Basel III (1)	**Basel II (2)**
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	300.0	100.0
Ratio of total capital to risk-adjusted assets	300.0	100.0
Minimum total capital ratio required by the Supervisor of Banks	12.5 (3)	9.0

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

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

(3) The minimum capital and capital ratio requirement according to the Supervisor of Banks with effect from January 1, 2015,

(4) On March 2, 2014, the Company issued to Isracard, 1,794,872 shares of NIS 0.0001 par value at a price of NIS 3.90 per share. The total proceeds was NIS 7 million. The purpose of the issuance was to comply with the minimum capital ratio conditions as required by the Bank of Israel.

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and the allowance for credit losses, and the amendment of the directives on the treatment of problematic debts, beginning on January 1, 2014, the Company implements the provisions Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management." which is focused on the adoption of the approach requiring the involvement of a function independent of the business units to support appropriate decision-making regarding credit; this function should address and participate in the formulation of credit policy, classification of problematic debts, and approval of material credit exposure. The implementation of the abovementioned directives has no effect on the Company, as Isracard manages and operates issuance and clearing activity for the Company in Israel for transactions made with merchants through Mastercard.

Credit Risk Management

Credit risk is one of the risks managed, monitored, and controlled by the Company, as a necessary characteristic of its activity as a company engaged in granting credit. The credit risk management process aids the Company in reviewing risk according to the component product mix.

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

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

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

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

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

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

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

- The Company tracks damages arising from the abuse of credit cards.

Principles of Credit Concentration Risk Management

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

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

Assigning Risk Ratings to Customers Based on Statistical Models

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

- Models are divided as follows:

  1. AS (application scoring) model for new customers;
  2. BS (behavior scoring) model – a behavioral model for customers of the Company;
  3. SME (small-medium enterprise) model – a model for business clients.

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

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

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

Establishing the Hierarchy of Credit Granting Authority

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

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

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

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

Exposure to Financial Institutions

The Company's operations involve exposure to financial institutions, in Israel and globally:

- Credit-card companies globally – Cross-clearing activity occurs between the Company and credit-card companies in Israel. In addition, the Company has exposure to the international credit-card company.
- Banks in Israel – Credit-card activity under the responsibility of banks is conducted with customers' accounts in banks in Israel. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.
- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel: deposits of foreign currency with financial institutions abroad. The Company's exposure is immaterial.
- The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results primarily from:

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

Independent Supervision

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

- Checking compliance with credit policy directives and with the instructions of the Bank of Israel.
- Active involvement in establishing credit policy, including credit limits. Control over the implementation of credit policy.
- Identifying new risks and emerging risks.

- Reporting the results of the monitoring to senior management and to the Board of Directors.
- Monitoring risk-assessment models.

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

- The Company's credit policy is updated and approved by the Board of Directors each year, according to developments at the Company, in the industry, and in the economy.
- The Company's Management is provided with data on the Company's credit-portfolio mix each month. The mix presents the segmentation of the portfolio in terms of credit products, sectors, risk ratings, geographical distribution, compliance with regulatory and internal limits, a risk-return analysis, and more.
- The credit-portfolio mix is presented to the Board of Directors of the Company on a quarterly basis.
- The Chief Risk Officer submits an independent report to Management on the control over credit-risk management each month.
- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.
- Working procedures at the Company are updated routinely by the various departments.

General Disclosure Regarding Exposures Related to Counterparty Credit Risk – OTC Derivatives

The Company's policy states that no activity for the purpose of trading in derivative financial instruments shall be conducted. The only activity in derivative financial instruments permitted to the Company is for the purposes of economic hedging.

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

Hedging Interest-Rate Exposures

The financial activity of the Company is usually characterized by a parallel between the average duration of assets and liabilities (mainly short-term). However, the Company also extends credit for the medium term (usually up to one year, and sometimes up to three years). In addition, the Company grants credit at fixed interest rates, which creates a gap in durations and generates exposure to changes in interest rates during the ordinary course of the Company's operations.

Hedging Foreign Currency Exposures

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

Disclosure by Companies Using the Standardized Approach

General

The Company accounts for all of its assets and liabilities using the standardized measurement approach, as defined in Proper Conduct of Banking Business Directives No. 201-211 ("Measurement and Capital Adequacy").

The Company does not have a trading portfolio, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

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

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

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

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

Committee; the Risk Management Committee of the Board of Directors; and the Board of Directors.

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

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

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

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

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager (DEPUTY CEODeputy CEO Finance and Administration)

The Market Risk Manager is responsible for the application and implementation, of a comprehensive policy for the management of all market and liquidity risks to which the Company is exposed (currency, CPI, interest rate, 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, as part of his duties, among other matters, for control of the market and liquidity risks of the Company.

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

Transactions are hedged using financial instruments at banks. The Company's policy is to bring foreign currency exposure to zero. However, immaterial exposures form as a result of differences in timing between the transaction date and the settlement date in foreign-currency transactions. The Company monitors these differences.

Operational Risk

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

The Company has a policy for the management of operational risks, which includes the following objectives:

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

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

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

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

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

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

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

Material operational risks are mitigated by:

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

Disclosure Regarding Positions in Shares in the Banking Portfolio

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

Prohibition on Money Laundering and Financing of Terrorism

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

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

The Company applies monitoring and controls with regard to private customers and merchants in general, and those defined as high risk in particular.

The Company maintains routine monitoring and controls in several areas, in order to ensure that it possesses the required information and documents, in accordance with the directives. Any gaps are addressed and resolved.

Employees are required to stay current on this topic through an annual training program and an up-to-date computer-based tutorial.

Individual training sessions are conducted as necessary at the various departments as well as at external entities that are in contact with customers and have a connection to the issue of the prohibition of money laundering and the financing of terrorism.

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

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

Critical Accounting Policies

The financial statements of the Company are prepared in conformity with generally accepted accounting principles in Israel and in accordance with the directives and guidelines of the Supervisor of Banks, the main points of which are described in Note 1 to the Financial Statements, "Significant Accounting Policies". When preparing the financial statements, the Management of the Company uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Company.

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

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

The following is the main area in which estimates and evaluations were used, and which accordingly is considered by the Company to be a critical accounting matter.

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 the stage reached by the proceedings into consideration.

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 made.

Risk factor		Brief description	Effect
1.	Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Low
1.1.	Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Low
1.2.	Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and control of compliance with these limits is carried out routinely.	Low
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's revenue and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in revenue.	Low
3.	Liquidity risk	Present or future risk to the Company's revenue and capital arising from an inability to supply its liquidity needs. In exceptional demand and supply situations in the financial markets, unplanned costs may be incurred in raising resources. The Company has taken action to diversify its liquidity sources.	Low

Risk factor		Brief description	Effect
4.	Operating risk	Present or future risk to the Company's revenue and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and reputation risk. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operating risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's revenue and capital resulting from unexpected events such as legal claims, including class-action suits, compliance events, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Medium
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low
7.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, revenue, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Medium

Risk factor		Brief description	Effect
8.	Strategic risk	The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decision The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decisions. Strategic risk is influenced by external and internal risk factors including competition, reflected in the loss of customers or reduction of customers' activity, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
9.	Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular the MasterCard Organization, may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of the Company and/or of Bank Hapoalim could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

Information Security and Cyber-Attacks Risks

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

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

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

1. Theft of financial assets, intellectual property, or other sensitive information of the banking corporation, of its customers, or of its business partners;
2. Disruption of the activity of the banking corporation or of its business partners;
3. Recovery costs;
4. Additional expenses in the area of protection and information security;
5. Loss of income as a result of unauthorized use of proprietary information, or due to failure to retain or attract customers following an attack;
6. Legal claims;
7. Damage to reputation.

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

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

Disclosure Regarding the Internal Auditor

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

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

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

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

Superior officer of the Internal Auditor – The Chief Internal Auditor reports within the organization to the Chairman of the Board of Directors.

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2014 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairman of the Board of Directors and the CEO of the Company.

Work plan – The activities of the Company are outsourced to the parent company, Isracard. These activities are audited through internal auditing at the parent company.

Internal auditing at the parent company is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2013 was derived from the multi-year plan, which is based on the following, among other matters: 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 0 of the Board of Directors and the CEO of the Company.

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

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

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

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

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

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

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

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

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

During the meetings (the meeting of the Audit Committee and the meeting of the Board of Directors), the financial statements are discussed and approved. The Head of Finance and Administration reviews the Company's business results and financial position as well as main items in the financial statements, the plausibility of the data, an analysis of the results in relation to the results of the corresponding period in the previous year and in relation to the budget, and material changes in the accounting principles applied. In addition, the Chief Accountant addresses material issues in financial reporting, material evaluations, and critical estimates implemented in the financial statements.

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

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

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

The Board of Directors

In 2014, the Board of Directors of the Company continued to set forth the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

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 approved the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee); addressed the organizational structure of the Company; established policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and exercised 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 Board of Directors and the committee held detailed discussions of the various aspects of the Company's activity.

19 meetings of the plenum of the Board of Directors and 10 meetings of the committees of the Board of Directors were held in 2014.

Directors with Accounting and Financial Expertise

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

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

Senior Members of the Board

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

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

Eldad Kahana	Member of the Board of Directors of the Company from August 8, 1979. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of Isracard and its audit committee and remuneration committee, Until July 31, 2013, served as 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 in the corporation.
David Luzon	Served as a member of the Board of Management of Bank Hapoalim B.M. from April 1, 2000 to March 31, 2011, as assistant to the CEO of Bank Hapoalim B.M., Head of Information Technology. Member of the Board of Directors of the Company since July 19, 2000. Also Director on the Board of Directors of the Company since July 19, 2000. Also, serves on the Board of Directors of Isracard and as member of the following committees in Isracard: Computer and Risk Management. In the last five years or during part of that period, served as a member of the board of directors of the following companies: Poalit, and Malam-Team Ltd. However, he no longer serves in these companies. B.Sc. in Mathematics and Computer Sciences, Bar Ilan University. To the best of the knowledge of the Company and of Mr. D. Luzon, he is not a family member of another interested party in the corporation.
Itzhak Amram	Member of the Board of Directors of the Company since September 25, 2011. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Member of the Audit Committee of the Board of Directors of the Company since April 23, 2012. Also serves as an external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks on the Board of Directors of Isracard and on the Board of Directors of Poalim Express and as a member of the Audit Committee and the Risk Management Committee of the Board of Directors of Isracard. LL.B.; member of the Israel Bar Association. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party in the corporation.

Nitzana Adawi	Member of the Board of Directors of the Company since May 29, 2012. Also a member of the Audit Committee of the Board of Directors of the Company. External director on the Board of Directors of the Company pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. Also, external director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the board of directors of the following companies: Isracard (from May 29, 2012) and Poalim Express (from October 31, 2011). Member of the Audit Committee and Remuneration Committee of the Board of Directors of Isracard and member of the credit committee and 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. Adawi, she is not a family member of another interested party in the corporation.
Ari Pinto	Member of the Board of Management of Bank Hapoalim B.M. since September 8, 2009. Assistant to the CEO of Bank Hapoalim B.M., Head of Retail Banking in Bank Hapoalim B.M. Served for the preceding four years as Head of Corporate Strategy, and previously as Head of the Retail Credit and Mortgages Division and as Head of the Human Resources Division. Member of the Board of Directors of the Company and Isracard since November 25, 2013. Chairman of the Board of Directors of Poalim Mortgages Insurance Agency Ltd. and Poalim Express Ltd. since July 6, 2014. M.A. in Public Administration; B.A. in Business Administration. To the best of the knowledge of the Company and of Mr. A. Pinto, he is not a family member of another interested party in the corporation.

Guy Kalif	Head of the Comptroller Division at Bank Hapoalim B.M. since February 1, 2007. Member of the Board of Directors of the Company since September 2, 2013 Also a member of the board of directors of the following companies: Isracard, Tarshish Hapoalim Holdings and 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. Chairman of the Risk Management Committee of the Board of Directors of Isracard since January 21, 2015. M.B.A., specialized in finance and strategy, Tel Aviv University. B.A. in Accounting and Economics, Tel Aviv University; Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. G. Kalif, he is not a family member of another interested party in the corporation
Mati Tal	Director in the Company since May 2014. Also director on the board of directors of the following companies: Isracard, 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 in the corporation.

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

Moshe Amit	Member of the boards of directors of various companies. Served as member of the Board of Directors of the Company from May 20, 2004 till November 20, 2014. Chairman of the board of directors of Global Factoring Ltd. Serves as a member of the board of directors of the following companies: Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets Investment Holdings Ltd.; Mega Retail Ltd. (formerly Blue Square Chain Properties & Investments Ltd.); AFI Development Plc, Cyprus; Allied Real Estate Ltd. Chairman of Excellence Investments Ltd. Until December 2003, member of the Board of Management of Bank Hapoalim. In the last five years or during part of that period, served as Chairman of Delek Israel Fuel Corporation Ltd. as member of the board of directors of the following companies: Isracard, the Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Matav – Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd., and as Chairman of the board of Continental Bank Ltd., Tempo Beer Industries Ltd. and Cargall Ltd.; but he no longer serves in these companies. B.A. in Social Sciences, Bar Ilan University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. M. Amit, he is not a family member of another interested party in the corporation.
Ran Oz	Served as member of the Board of Directors of the Company from June 25, 2009 until December 31, 2014. In the last five years or during part of that period, served as a member of the Board of Management of Bank Hapoalim B.M., Assistant to the CEO of the Bank, Head of the Financial Division (Chief Financial Officer). Also served as Chairman of the board of directors of the following companies: Diur B.P. Ltd., Poalim Trust Services Ltd.; as deputy Chairman of the board of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd. Also, served, until December 31, 2014, as director of Isracard and Poalim Express and as Chairman of the Risk Management Committee of the Board of Directors of Isracard and member of the the Remuneration Committee of the Board of Directors of Isracard. Served as member of the board of directors of the following company: Sure-Ha International Ltd., but no longer serves in it. M.A. in Economics and Business Administration, Hebrew University in Jerusalem; B.A. in Accounting and Economics, Hebrew University in Jerusalem. Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. R. Oz, he is not a family member of another interested party in the corporation.

Ruth Arad	Served as external director pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks in the Company from the beginning of March 2011 till February 28, 2014. Risk management advisor at HMS since the beginning of 2011. In the last five years or during part of that period, served as director on the Board of Directors of Isracard, as Chairman of the Risk Management Committee of the Board of Directors of Isracard and as member of the Audit Committee of the Board of Directors of Isracard, as chief risk controller at the Leumi Group, as a director at the Israel-United States Commerce and Industry Bureau, and at the Fisher Institute for Air and Space Strategic Studies, but she no longer serves in these positions. Ph.D. and M.A. in Financing and Statistics, Princeton University; B.A. in Mathematics and Economics, Tel Aviv University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Dr. R. Arad, she is not a family member of another interested party in the corporation.

Senior Members of Management

Ronen Stein	CEO of the Company since February 1, 2015 CEO of the following credit card companies: Isracard and Poalim Express. Chairman of the board of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Director on the board of directors of Global Factoring Ltd. In the last five years or during part of that period, served as Manager of Retail Banking Section in Bank Hapoalim, and prior thereto, fulfilled a number of management positions in Bank Hapoalim. LL.B. Interdisciplinary College, Herzlia. B.A. Economics – Hebrew University in Jerusalem. Holder of investment consulting license – Israel Securities Authority Lawyer To the best of the knowledge of the Company and of Mr. R. Stein, he is not a family member of another interested party in the corporation.
Oren Cohen Butensky	Member of Management of the Company since June 2011. Deputy CEO Customer Service. Member of the board of directors of Tzameret Mimunim Ltd. since April 4, 2012. Previously served as head of the sales company in MIRS Communications, SDM, and as head of Internet support centers at 012. M.A. in Business and Marketing, Derby University; B.A. in Economics and Social Sciences, Bar Ilan University; B.A. in Psychology, Open University. To the best of the knowledge of the Company and of Mr. A. Cohen Butensky, he is not a family member of another interested party in the corporation.
Amir Kushilevitz-Ilan	Member of the Management of the Company since February 2011. Deputy CEO Risk Management and Security and Chief Risk Officer. In the last five years or during part of that period, served as head of the Risk Management Department of the Company M.B.A., Ben Gurion University; B.Sc., Aeronautics and Space Engineering, Technion. To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party in the corporation.

Vicky Levi	Member of the Management of the Company since January 1, 2014. Deputy CEO Commerce. Director on the board of directors of Global Factoring Ltd. From 1992, served in various positions at Bank Hapoalim B.M. In her previous position, before the beginning of her term of office, served as Regional Manager in Bank Hapoalim B.M. (2006-2013) M.B.A., Ben Gurion University; B.A. in Economics, Ben Gurion University. Investment advisor certified by the Israel Securities Authority. Completed a directors' course at the Interdisciplinary Center, Herzliya. To the best of the knowledge of the Company and of Ms. V. Levi, she is not a family member of another interested party in the corporation.
Maora Shalgi	Member of the Management of the Company since May 1, 2011. Deputy CEO Human Resources. M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University; B.A. in Social Sciences and Liberal Arts, Open University. To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party in the corporation.
Meirav Klipper Peretz	Member of the Management of the Company from June 1, 2014. Deputy CEO 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 team 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. Klipper Peretz, she is not a family member of another interested party in 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.,. 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. Deputy CEO Technology. Graduate of the computer units of the IDF, most recently as commander of the IDF Manpower Computing Center, holding the rank of Colonel. M.A. in Public Administration, Bar Ilan University; B.A. in Computer Science, Economics, and Criminology, Bar Ilan University. Computer technician and computer engineer degree, Technological Training Center. Graduate of the IDF Command and Staff College. Founder and active participant in Bridge of Light – A shared activity of high-tech industry workers, IDF soldiers, and the blind. Founder and joint authorized signatory of the Elul Gemach (charity organization), within the non-profit association of the Shaarey Tikvah synagogue and community Torah center. To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party in the corporation.
Ron Cohen	Member of the Management of the Company since February 27, 2007. Deputy CEO Credit and Financial Services. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Securitization Ltd. Previously served as Head of Customer Relations in the Corporate Banking Division at Bank Hapoalim B.M., for ten years. M.A. in Business Administration, Marketing, and Finance, Hebrew University of Jerusalem; B.A. in Economics and International Relations, Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party in the corporation.

Ram Gev	Member of the Management of the Company since the end of March 2011. Deputy CEO Finance and Administration. Serves as a member of the board of directors of the following companies: Isracard (Nechasim) 1994 and Isracard Mimun. Previously served as head of finance at Harel Finance and as deputy manager of the Corporate Department at the Israel Securities Authority. M.B.A. (specialized in finance), Hebrew University of Jerusalem; B.A. in Accounting and Economics, Hebrew University of Jerusalem. Certified Public Accountant To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.
Dov Kotler	Served as Chief Executive Officer of the Company from February 1, 2009 till January 31, 2015. Served as CEO of the following credit-card companies: Poalim Express and Europay till January 31, 2015. Also served Chairman of the board of directors of the following companies: Tzameret Assets, Isracard (Nechasim) 1994, and Isracard Mimun. Also served as director of Global Factoring Ltd. Member of the board of directors of the following companies: Amir Marketing and Investments in Agriculture Ltd., and H.E.O.H. Management Services Ltd.; member of the governing board of the Round Up Foundation. M.B.A., Finance Section, Tel Aviv University; B.A. in Economics, studies in International Relations, Tel Aviv University; AMP (Advanced Management Program), Harvard University. To the best of the knowledge of the Company and of Mr. D. Kotler, he is not a family member of another interested party in the corporation.
Yigal Bareket	Served as member of the Management of the Company, Deputy CEO Marketing from September 1, 2010 till May 1, 2014.

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

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

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

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2014, there was no change in the Company's internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal controls over financial reporting.

Dan Koller	**Ronen Stein**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 23, 2015

Europay (Eurocard) Israel Ltd.

Management's Review

For the Year Ended December 31, 2014

ISRACARD GROUP

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Balance Sheet – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Assets					
Other assets	3	2	7	185	183
Total assets	**3**	**2**	**7**	**185**	**183**
Liabilities					
Other liabilities	-	-	*-	*-	-
Total liabilities	**-**	**-**	***-**	***-**	**-**
Equity	3	2	7	185	183
Total liabilities and capital	**3**	**2**	**7**	**185**	**183**

* Amount less than NIS 0.5 million.

Statement of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Net operating expenses under the agreement with Isracard Ltd.	(6)	(5)	(6)	(4)	(4)
Net interest income (expenses)	-*	-*	2	6	4
Profit (loss) before taxes	(6)	(5)	(4)	2	(*-)
Provision for taxes on profit	-	-	*-	*-	*-
Net profit (loss)	**(6)**	**(5)**	**(4)**	**2**	**(*-)**
Basic and diluted net profit (loss) per common share (in NIS)					
Net profit (loss)	(3)	(12)	(9)	4	(**-)

* Amount less than NIS 0.5 million.

** Amount less than NIS 0.5.

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

Addendum 3

Reported amounts

In NIS millions

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

	2013			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	2	3	4	6
Total assets	**2**	**3**	**4**	**6**
Liabilities and capital				
Other liabilities	-	-	-	-
Equity	2	3	4	6
Total liabilities and capital	**2**	**3**	**4**	**6**

* Amount less than NIS 0.5 million.

Statement of Profit and Loss as at the End of Each Quarter – Multi-Quarter Data

Addendum 4

Reported amounts

In NIS millions

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

	2013			
	Q4	**Q3**	**Q2**	**Q1**
Net operating expenses under the agreement with Isracard Ltd.	(1)	(1)	(2)	(1)
Net interest income (expenses)	(*-)	*-	*-	*-
Loss before taxes	(1)	(1)	(2)	(1)
Provision for taxes on profit	-	-	-	-
Loss	(1)	(1)	(2)	(1)
Basic and diluted loss per common share (in NIS)	**(2)**	**(2)**	**(5)**	**(3)**

* Amount less than NIS 0.5 million.

** Amount less than NIS 0.5.

Certification

I, Ronen Stein, hereby declare that:

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

2. Based on my knowledge, the Report contains no false representation of a material fact, and does not lack a material fact that is necessary so that the representations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

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

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

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

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

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

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

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

   A. Any significant deficiencies and material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the

Company's ability to record, process, summarize, or report financial information; and

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

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

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

Ronen Stein

Tel Aviv, February 23, 2015

Chief Executive Officer

Certification

I, Sigal Barmack, hereby declare that:

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

2. Based on my knowledge, the Report contains no false representation of a material fact, and does not lack a material fact that is necessary so that the representations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

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

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

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

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

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

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

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

   A. Any significant deficiencies and material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the

Company's ability to record, process, summarize, or report financial information; and

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

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

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

Sigal Barmack

Tel Aviv, February 23, 2015

Manager of Finance and Accounting Department,
Chief Accountant

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

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

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

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control of financial reporting as at December 31, 2014, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992). Based on this assessment, Management believes that as at December 31, 2014, the Company's internal controls over financial reporting are effective.

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2014 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 87. 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, 2014.

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

Tel Aviv, February 23, 2015

Europay (Eurocard) Israel Ltd.

Financial Statements

For the year ended December 31, 2014

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Somekh Chaikin

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

We have audited the internal control over financial reporting of Europay (Eurocard) Ltd. (hereinafter: “the Company”) as at December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: “COSO (1992)”). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as at December 31, 2014, based on criteria established in the Internal Control – Integrated Framework issued by COSO (1992).

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by the directives and guidelines of the Supervisor of Banks, the balance sheets of the Company as at December 31, 2014 and 2013, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows for each of the years in the three-year period ended on December 31, 2014. Our report dated February 23, 2015, expressed an unqualified opinion of the aforesaid financial statements while drawing attention to Note 4A(2) concerning additional regulation.

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

Tel Aviv, February 23, 2015

Somekh Chaikin

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

ZIV HAFT

ZIV HAFT
IS A MEMBER OF BDO

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

We have audited the accompanying balance sheets of Europay (Eurocard) Ltd. (hereinafter: "the Company") as at December 31, 2014 and 2013, and the statements of profit and loss, statements of changes in equity, and statements of cash flows of the Company for each of the three years in the period ended on December 31, 2014. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and 2013, and the results of operations, changes in equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2014, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 4A(2) concerning additional regulation.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB) concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2014, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission "COSO (1992)", and our report dated February 23, 2015, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

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

Tel Aviv, February 23, 2015

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

BDO

ZIV HAFT
IS A MEMBER OF BDO

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2014	2013
Assets			
Other assets	2	3	2
Total assets		**3**	**2**
Liabilities and capital			
Contingent liabilities and special agreements	4	-	-
Equity	3	3	2
Total liabilities and capital		**3**	**2**

Dan Koller
Chairman of the Board of Directors

Ronen Stein
Chief Executive Officer

Sigal Barmack
Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 23, 2015

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2014	2013	2012
Net operating expenses under the agreement with Isracard Ltd.	5	(6)	(5)	(6)
Net interest income (expenses)		-*	(*-)	2
Profit (loss) before taxes		(6)	(5)	(4)
Provision for taxes on profit	7	-	-	*-
Net profit (loss)		(6)	(5)	(4)
Basic and diluted net profit (loss) per common share (in NIS)		(3)	(12)	(9)
Number of common shares used in calculation		1,922,606	427,699	427,699

* Amount less than NIS 0.5 million.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	Paid-up share capital	Premium on shares	Total paid-up share capital and premium	Retained earnings	Total equity
Balance as at December 31, 2011	**1**	***-**	**1**	**184**	**185**
Loss for the year	-	-	-	(4)	(4)
Dividend	-	-	-	(174)	(174)
Balance as at December 31, 2012	**1**	***-**	**1**	**6**	**7**
Loss for the year	-	-	-	(5)	(5)
Balance as at December 31, 2013	**1**	***-**	**1**	**1**	**2**
Share issue	-*	7	7	-	7
Loss for the year	-	-	-	(6)	(6)
Balance as at December 31, 2014	**1**	**7**	**8**	**(5)**	**3**

Statements of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Cash flows from operating activity			
Loss for the year	(6)	(5)	(4)
Adjustments:			
Change in other assets	(1)	5	178
Change in creditors and credit balances	-	(*-)	*-
Net cash from operating activity	**(7)**	**-**	**174**
Cash flows from financing activity			
Net cash from financing activity	**7**	**-**	**(174)**
Change in cash	-	-	-
Balance of cash at beginning of year	-	-	-
Balance of cash at end of year	-	-	-

* Amount less than NIS 0.5 million.

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

Note 1 – Significant Accounting Policies

A. General

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

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

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

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

B. Definitions

In these financial statements:

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

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

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

2. The Parent Company – Isracard Ltd.

3. Related parties – As defined in IAS 24, Related Party Disclosures, excluding interested parties.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

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

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

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

7. USD – United States dollar.

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

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

10. Cost – Cost in reported amounts.

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

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

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

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

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

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

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

contingent liabilities and provisions; presentation of financial statements; and segmental reporting.

♦ **On matters not related to the core business of banking** – Accounting treatment based on Israeli GAAP, and on certain IFRS and the related IFRIC interpretations. Pursuant to the directives of the Supervisor of Banks, international standards are implemented according to the following principles:

- In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Company treats the issue according to GAAP for US banks specifically applicable to these matters;

- In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Company acts according to specific implementation guidelines established by the Supervisor;

- Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Company acts in accordance with the IFRS;

- Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Company acts in accordance with the Public Reporting Directives and with Israeli GAAP;

- Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives shall replace the original reference.

2. Functional Currency and Presentation Currency

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

3. Measurement Base

The financial statements were prepared based on historical costs. The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli

Note 1 – Significant Accounting Policies (cont.)

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

economy was considered a hyper-inflationary economy until that date. Beginning on January 1, 2004, the Company has prepared its financial statements in reported amounts.

4. Use of Estimates

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

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

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

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

The following accounting standard was implemented by the Company for the first time in the financial statements for 2014:

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

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

The Company implemented the directive on the format of the statement of profit and loss of a banking corporation and the adoption of GAAP for US banks on interest income measurement from January 1, 2014, and thereafter. The directive had no effect on the financial statements.

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

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

Note 1 – Significant Accounting Policies (cont.)

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

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

Exchange-rate differences arising from translation are recognized in profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

2. Basis for Recognition of Revenue and Expenses

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

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

3. Contingent Liabilities

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

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

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

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

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

4. Expenses for Taxes on Income

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

Note 1 – Significant Accounting Policies (cont.)

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

Current Taxes

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

5. Earnings per Share

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

6. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, investing activity, and financing activity. Cash flows arising from main activities of the Company 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.

7. Related Party Disclosures

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

8. Transactions with Controlling Parties

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

Note 1 – Significant Accounting Policies (cont.)

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

Treatment of Transactions between an Entity and its Controlling Party.

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

Loans, Including Deposits

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

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

Note 2 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2014	2013
Isracard Ltd.(1)	3	2
Surplus advance income-tax payments	-*	-*
Total other assets	**3**	**2**

* Amount less than NIS 0.5 million.

(1) This balance is unlinked, and bears interest at the rate commonly used at Bank Hapoalim B.M. for weekly short-term deposits. For further details, see Note 4D below.

Note 3A – Equity

A. Composition

	As at December 31, 2014		As at December 31, 2013	
	Registered	Issued and paid-up	Registered	Issued and paid-up
	In NIS			
Ordinary shares of NIS 0.0001	**500**	**222**	100	43

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

Note 3B – Capital Adequacy According to the Directives of the Supervisor of Banks[1]

Reported amounts

As of January 1, 2014, the Company applies the Measurement and Capital Adequacy Directive based on the Basel III directives (hereinafter: **"Basel III"**) as published by the Banking Supervision Department and as integrated in Proper Conduct of Banking Business Directives 201-211. Until December 31, 2013 the Company applied the provisions of Basel II.

Adopting Basel III directives

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

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

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

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

In addition, on August 29, 2013, Banking Supervision Department issued a circular on the subject of "Basel Disclosure Requirements relating to the Composition of Capital"

Note 3B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

Reported amounts

(hereinafter: **the "Circular"**). The circular establishes updated disclosure requirements that require the banks and credit card companies to include as part of the adoption of Basel III directives.

Note 3B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

Reported amounts

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

Minimum capital ratios

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

It was also determined that the minimum total capital ratios will be, by January 1, 2015, 12.5% for the entire banking sector and 13.5% for particularly significant banking corporation, by January 1, 2017. On May 20, 2014, the Board of Directors approved the minimum capital ratio targets, as above.

Effect of the adoption of the Basel III directives at January 1, 2014

In the financial statements for 2013, the banks and credit card companies were required to include a disclosure on the expected effect of implementation of the Basel III directives. The aforesaid directives do not have any effect of the capital ratios, the equity and the risk assets of the Company.

1. Capital for the calculation of the capital ratio

	As at December 31	
	2014	2013
	Basel III (1)	Basel II (2)
	In NIS millions	
Tier 1 shareholders' equity / Core capital and Tier 1 capital	3 [4]	2
Total overall capital	**3**	**2**

Note 3B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

Reported amounts

2. Weighted balances of risk assets

	December 31, 2014		December 31, 2013	
	Basel III (1)		Basel II (2)	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1	-*	1	-*
Operational risk	-	-	1	-*
Total weighted balances of risk-adjusted assets	**1**	**-***	**2**	**-***

* Amount less than NIS 0.5 million.

3. Ratio of capital to risk assets

	As at December 31	
	2014	2013
	Basel III (1)	Basel II (2)
	In percent	
Ratio of Tier 1 shareholders' equity / core capital and Tier 1 capital to risk assets	300.0	100.0
Ratio of total capital to risk assets	300.0	100.0
Minimum total capital ratio required by the Supervisor of Banks	12.5 (3)	9.0

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

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

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

(4) On March 2, 2014, the Company issued to Isracard 1,794,872 common shares of NIS 0.0001 par value each, at the price of NIS 3.9 per share. The total proceeds is about NIS 7 million. The purpose of the issue was to comply with the terms of the minimum capital ratio as required by the Bank of Israel.

Note 4 – Contingent Liabilities and Special Agreements

A. Antitrust issues and additional regulation

1. Antitrust issues

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

Pursuant to an arrangement between Isracard and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "**Arrangement**"), the average issuer fee stood at 0.735% as of July 1, 2013, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

2. Additional regulation

A. On April 2, 2014, a decision was taken by the Ministerial Committee for the Cost of Living, according to which the Bank of Israel, the Antitrust Commissioner, and the Supervisor of Banks will consider a number of issues regarding the assimilation of immediate debit cards as means of payment. Subsequently, on August 10, 2014, a memorandum bill was published, authorizing, inter alia, the Antitrust Commissioner to set the interchange fee rates for different transactions by debit cards, including setting interchange fees at zero. On May 27, 2014, the interim report of the committee to review reducing the use of cash in the Israeli economy was published for public comment. The report includes, inter alia, recommendations for expanding the use of an immediate debit card and an identifiable prepaid card in the outline presented by the Antitrust Commissioner. On July 17, 2014, the committee published a draft resolution. On October 22, 2014, the Government approved the draft resolution on the subject dated August 6, 2014. On September 8, 2014, the Antitrust Authority published a report entitled Increasing Efficiency and Competition in the Debit Card Area whose sections include recommendations for expanding the use of debit cards in Israel and for the early crediting of vendors for charge card transactions. In January 2015, a Memorandum Law was published to reduce the use of cash, and in February 2015 an amended version of the memorandum was published, which aims to implement the report of the committee to review reducing the use of cash in the Israeli economy, while setting gradual limits on the use of cash and negotiable checks in order to reduce the incidence of a "black economy" in Israel, fight crime and money laundering, and to allow use of advanced and

Note 4 – Contingent Liabilities and Special Agreements (cont.)

Reported amounts

efficient means of payment. Among other things, the Memorandum Law granted authority to the Antitrust Commissioner to establish interchange fee rates of immediate debit card transactions. The Memorandum Law states that the terms of its application is that immediate debit cards are an available product similar to deferred debit cards. In February 2015, the Government decided to approve the Memorandum Law, and to request to convene the Knesset during its break to bring the bill for its first reading.

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

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

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

B. Legal Proceedings and Contingent Liabilities

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

C. Indemnification of Directors and Other Officers

The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

D. Agreement with Isracard (the Parent Company)

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

Note 5 – Net Operating Income (Expenses) Under the Agreement with Isracard Ltd.

Reported amounts

In NIS millions

	For the year ended December 31		
	2014	**2013**	**2012**
Income			
Income in respect of merchants	14	15	15
The Company's share of royalties from Banks Under Arrangement	5	5	4
Total income	**19**	**20**	**19**
Expenses			
Operating expenses	19	20	20
Payments for operation and management of the arrangement	6	5	5
Total expenses	**25**	**25**	**25**
Total	**(6)**	**(5)**	**(6)**

Note 6 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2014		December 31, 2013	
	Interested parties		Interested parties	
	Controlling shareholders		Controlling shareholders	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Isracard Ltd.	**3**	**7**	**2**	**7**

B. Summary of Results of Business with Interested and Related Parties (1)

	For the year ended December 31		
	2014	2013	2012
Net operating expenses according to the agreement with Isracard	(6)	(5)	(6)
Net interest income (expenses)	-*	(*-)	2
Total	**(6)**	**(5)**	**(4)**

(1) See Note 5 above.

* Amount less than NIS 0.5 million.

Note 7 – Provision for Taxes on Profit

Reported amounts

In NIS millions

1. Item Composition

	For the year ended December 31		
	2014	**2013**	**2012**
Current taxes for the accounting year	-	-	-
Taxes for previous years	-	-	*-
Provision for taxes on income	**-**	**-**	***-**

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

	For the year ended December 31		
	2014	**2013**	**2012**
Tax rate applicable to the Company in Israel	26.5%	25%	25%
Tax amount based on statutory rate	(2)	(1)	(1)
Timing difference for which there are no deferred taxes	2	1	1
Provision for taxes on income	**-**	**-**	***-**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2010, including tax assessments considered to be final under the Income Tax Ordinance.

4. Changes in Tax Rates

Corporation Tax

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

2012: 25%

2013: 25%

2014: 26.5%

Note 7 – Provision for Taxes on Profit (cont.)

Reported amounts

In NIS millions

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

B. National Insurance

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

Note 8 – Information Based on Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2014	2013
Total assets	3	2
Equity	3	2
Nominal loss	(6)	(5)