Translated from Hebrew original

Poalim Express Ltd.

Annual Report

For the year ended December 31, 2017

Table of Contents

Forward-Looking Information

Some of the information set forth in these reports, which does not relate to historical facts (even if it is based on the processing of historical facts), constitutes forward-looking information, as defined in the Securities Law, 1968 ("the Securities Law"). Actual results may be materially different from the assessments and estimates included in the context of forward-looking information, as a result of a number of factors, including, inter alia, the result of changes in the capital markets in Israel and around the world, macroeconomic changes, changes in the geopolitical situation, regulatory changes, accounting changes and changes in taxation rules, as well as other changes which are not under the Company's control, and which could cause a failure to realize the assessments and/or to changes in the Company's business plans and/or their realization differently, and even materially, from forecast. Forward-looking information is characterized by words or phrases, such as "forecast", "plan", "target", "estimate of risk", "scenario", "stress scenario", "risk assessment", "correlation", "distribution", "we believe", "expected", "predicted", "assess", "intend", "likely", "liable to change", "need", "can", "will be", "according to the Company's assessment" and similar expressions. These forward-looking information and expressions are subject to risks and uncertainty, as they are based on estimates of the management at the date of signing the report with regard to future events, which include, inter alia, changes in the following parameters: the state of the economy, the tastes of the public, rates of interest in Israel and overseas, rates of inflation, new legislative provisions and regulations in the area of banking and the capital market, exposure to financial risks, the financial solvency of borrowers, the behavior of competitors, aspects related to the Company's image, technological developments and the area of manpower, as well as other areas which have an impact on the Group's activities and upon the environment in which it operates, and for which, in the nature of things, their realization is uncertain. Furthermore, the information presented below relies, inter alia, on information based on publications of various external entities, such as: the Central Statistical Bureau, the Ministry of Finance, data from the Bank of Israel and other entities.

Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the management, I am proud to submit to you the Annual Financial Report of Poalim Express Ltd. (hereinafter: "**the Company**") for 2017.

The Company ended 2017 with a profit of NIS 47 million, similar to 2016. The overall capital to risk components ratio increased in 2017 and stands at 18.9%.

The payments market in Israel in 2017 was characterized by continued intensification of competition, which places the Company in direct competition with longstanding and new players from the financial arena as well as from other new arenas. The payments market faces a significant change in the business environment, arising from two main trends. The first trend is the technological developments in the areas in which the Company operates, which are changing the market worldwide and in Israel and present the Company with the need to adapt itself to the future business environment. A further material trend is a wide variety of new regulatory directives which are changing the rules of the game in the world of payments and financial services and alter the equilibrium which has shaped the market for years. During 2017, there was a significant intensification in the volume of regulatory directives which have implications for the Company's activity, principally, the Law for the Increase in Competition and the Reduction of Concentration in the Banking Market in Israel ("the Strum Law"). In light of this, we estimate that 2018 will be a key year in shaping the market and as a leading and central entity providing financial services, we are constantly and carefully examining the significance of the changes in the market, and promoting the opportunities at the Company's disposal as a result of them, while adapting the business model to the "new world".

The Strum Law, which was approved in January 2017, has a massive impact on the Company. The law includes the provision for separating the Company from its current owners in the near future, and additionally, contains a large number of regulations relating to the modus operandi of the various players in the payments market, some of which have already begun to affect the Company’s activity this year. In view of this, the Company is making preparations for separation and is currently in the process of preparing a prospectus, and preparations for a possible sale. In addition, the Company is taking steps in all of the relevant aspects to preserve, strengthen and expand its capabilities to operate as an independent company in the coming year. 2018 will be a year of preparation for separation, while keeping the Company's main assets. It is clear that implementation of the legislation, including the separation of Poalim Express from Bank Hapoalim, has implications, some of which have a material effect on the Company, on the structure of the market and on the companies operating in it. The Company is taking steps to adapt its business model to the new market structure as a result of the implementation of the law, while utilizing the business opportunities inherent in it. However, it is important to note that the large amount of changes outlined above poses great uncertainty regarding the way in which the market and the business environment will develop. The Company is, as noted above, in the midst of preparations for the changing reality, while continuing to strive to provide high value to its private and business customers, to anchor and expand its core activities, and to strengthen cooperation with other players in the markets in which we operate.

The Company, being a world leader in the marketing and distribution of credit cards to the premium populations, is much more than a supplier of the means of payment. The Company works tirelessly to provide its customers with unique experiences in the worlds of aviation, life-style, culinary and service. The Company's airline program is the market leader and offers conversion points to the largest number of airlines and hotels, the deployment of large luxury lounges on the global level and the early purchase of luxury classes in partner programs.

As in every year, in 2017, we held a number of exclusive events for both private and business customers. Our customers enjoyed designated VIP areas in most of the international shows that arrived in Israel and leading wine and culinary festivals. At the same time, our customers enjoyed unique experiences, such as participating in the Oscars, London Fashion Week, and more.

In addition, for the third year, we held the Round Tables by American Express international culinary festival, with chefs coming to Israel from all over the world and offering a unique menu with the participation of Israeli chefs. Beyond the "one of a kind" experience for our customers, the festival generates a positive media echo in the world and the chefs are ambassadors of the Israeli culinary world on their return to their countries of origin.

All this was done with the aim of excellence in service - both as support for the card as a means of payment, and through a concierge service which acts as a personal assistant to our customers and enables them to receive recommendations and assistance in ordering activities and services in Israel and abroad.

All these, which constitute a layer from the Membership Rewards Points Program and the Bonus Benefits Program which we offer, in combination with the investment in collaborations and distribution channels has helped the Company to grow at a higher than the market average rate and to improve customer loyalty.

Beyond business excellence, as a leading company in Israel, the Company views itself as committed to giving to the community and dedicates special attention to promoting the future generation, empowering women and strengthening the disadvantaged, needy and diverse populations in Israeli society. Poalim Express is constantly working to increase its employees’ awareness of the issue of social involvement and encourages volunteering activity, both within the Company framework and independently.

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

Sincerely,

Eyal Deshe,

Chairman of the Board of Directors

Tel Aviv, February 25, 2018

Poalim Express Ltd.

Report of the Board of Directors and the Management

For the year ended December 31, 2017

List of Tables

General Review, Targets and Strategy

Summary Description of the Company and Main Areas of Operation

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

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

The Company issues, operates and acquires American Express credit cards issued for use in Israel and abroad under a license granted to the Company by American Express Ltd. (hereinafter: "**the American Express Organization**"). The agreement with the worldwide American Express Organization concerning the issuance and acquiring of American Express credit cards was renewed in May 2016. This agreement is in effect for a period of further five years, as of January 1, 2017.

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

For additional details regarding the Company's activity in the areas of issuance (Description of the issuance activity in this report includes "issuance operation"), acquiring and credit, see section "Operating segments" in the Report of the Board of Directors and the chapter "Description of the Company's business by operating segment" in the Corporate Governance Report which is attached to this report ("Corporate Governance Report"). For details regarding trends, phenomena, developments and significant changes in the Company's areas of activity, see sections "Trends, phenomena, developments and significant changes", "Economic and Financial Review" and "Regulatory Proceedings" in the Report of the Board of Directors.

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

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

Separation of credit card companies from Banks with a wide scope of activity

In January 2017, the Intensification of Competition and Reduction of Concentration in the Banking Market in Israel Law (Legislative Amendments), 2017 (hereinafter: "**the Strum Law**") was published. Pursuant to the said law, inter alia, with effect from the dates set forth below, Bank Hapoalim (which, at the date of signing this report is the controlling shareholder in Isracard) and Bank Leumi Le-Israel Ltd. (hereinafter, "**Bank Leumi**"), (which to the best of the Company's knowledge. is, at the date of signing this report, a controlling shareholder in Leumi Card Ltd. (hereinafter, "**Leumi Card**")), in view of their meeting the definition of "a bank with a wide scope of activity" in the Strum Law, they will no longer be able to carry out all of the activities and services related to the issuance of cards (except for the issuance itself and the determination of the commissions and costs to the customers involved in the issuance and use of the cards) (hereinafter: "**the issuance operation**"), to engage in the acquiring of transactions in cards and to control or hold the means of control in a corporation operating in the aforesaid areas. Accordingly, from the dates set forth below, Bank Hapoalim and Bank Leumi will no longer be able to hold Isracard Group and Leumi Card, respectively. However, the said banks were granted an option of entering into an agreement with external entities (such as Isracard) for supplying the services related to the issuance of cards or to enter into an agreement as a merchant with an acquirer. The abovementioned restrictions will come into force on February 1, 2020 (three (3) years following January 31, 2017 (hereinafter: "**the commencement date**")), and in relation to any of the banks as aforesaid whose shareholding percentage in a credit card company held by it has fallen to forty percent (40%) or less (provided that at least twenty-five percent (25%) of the shares of the said credit card company were issued to the public) – with effect from February 1, 2021 (four (4) years following the commencement date). It should be clarified that, for the purpose of the future ownership of the separated credit card companies, the law allows the Isracard Group to be considered one credit card company.

According to the Company assessment, the provisions of the Strum Law (including the indirect legislative amendments by virtue thereof) and their applications have significant and material implications for the banking, financial services and credit card industries, in general, and for the Company, in particular, which, at the date of signing the report, the Company is unable to estimate or fully quantify. However, at the date of signing the report, the Company is taking steps on a number of levels to prepare for the implications of the abovementioned legislation (and for other regulatory changes as outlined in the section "Regulatory proceedings" in the Report of the Board of Directors) and invests several resources for the purpose.

For further details, see sections, "Trends, phenomena, developments and significant changes", "Regulatory proceedings" and "Targets and Business strategy" in the Report of the Board of Directors.

Principal Condensed Financial Information

Details of the main developments and changes which occurred in 2017 are as follows:

Net profit of the Company in 2017 amounted to NIS 47 million, similar to the corresponding period last year.

Net return on average equity in 2017 amounted to 11.9%, compared with 13.2% in 2016.

Total assets of the Company at December 31, 2017 amounted to NIS 3,134 million, compared with NIS 3,002 million last year.**The balance of debtors in respect of credit card activity, net** at December 31, 2017 amounted to NIS 2,604 million, compared with NIS 2,427 million last year.

Total capital at December 31, 2017 amounted to NIS 416 million, compared with NIS 379 million last year. **The ratio of overall capital to risk elements** at December 31, 2017 amounted to 18.9%, compared with 18.4% last year.

Table 1 - Condensed financial information and long-term performance indices

NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
Main performance indices (in %)					
Rate of return of net profit on average equity	11.9%	13.2%	12.9%	16.7%	19.3%
Rate of return of profit before taxes on average equity	15.7%	18.3%	17.7%	22.7%	25.6%
Return of net profit to average balance of assets	.15%	1.6%	1.6%	1.9%	1.9%
Tier 1 shareholders' equity ratio	18.0%	17.5%	15.4%	15.1%	13.8%
Leverage ratio *	10.3%	9.8%	8.5%		
Ratio of income to average assets	13.8%	13.8%	14.2%	14.2%	14.4%
Ratio of expenses to income	85.4%	83.8%	85.0%	82.0%	82.4%
Main credit quality indices (in %)					
Rate of the balance of allowance for credit losses in respect of debtors in respect of credit card activity of the balance of debtors in respect of credit card activity	0.69%	0.65%	0.56%	0.56%	0.53%
Rate of the balance of impaired debtors in respect of credit card activity of the balance of debtors in respect of credit card activity	.011%	0.12%	.009%	0.10%	0.16%
Rate of write-offs, net, in respect of credit card activity of the average balance of debtors in respect of credit card activity	.036%	.030%	0.19%	0.05%	0.06%

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
Principal data from the profit and loss account for the reporting year:					
Net profit attributable to the shareholders of the Company	47	47	40	45	43
Income from credit card transactions	428	405	368	332	317
Net interest income	2	2	1	3	5
Credit loss expenses	12	10	6	1	1
Operating and other expenses	351	326	306	276	265
Of which: Salaries and related expenses	44	39	42	35	37
Net profit per ordinary share in the reporting year (in NIS attributable to shareholders)					
Basic and diluted net profit per ordinary share	338	340	285	324	309
Principal data from the balance sheet at the year-end					
Total assets	3,134	3,002	2,865	2,417	2,338
Debtors in respect of credit card activity, net	2,604	2,427	2,301	1,951	1,886
Other assets	512	551	549	449	438
Total liabilities	2,718	2,623	2,533	2,125	2,091
Creditors in respect of credit card activity	2,692	2,601	2,510	2,108	2,017
Other liabilities	23	21	19	15	15
Capital attributable to the shareholders of the Company	416	379	332	292	247
Other data					
Dividend distributed to the shareholders of the Company	10	-	-	-	-

* Disclosure requirements applicable since April 1, 2015

Main Risks to which the Company is Exposed

Some of the information detailed in this chapter, even if it is based on processing of historical data, constitutes forward looking information as defined in the Securities Law, as detailed in the introduction to this report.

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

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

Liquidity and financing Risk – is the risk to the Company's profits and stability, deriving from its inability to provide its liquidity needs, the ability to finance an increase in assets and repay its commitments on their date of repayment, without encountering exceptional losses.

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

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

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

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

Strategic and competition risk – deriving from flawed business decisions, improper implementation of business decisions and the failure to perform or adapt a work plan to changes in the business environment and a lack of response to changes in the market (e.g., steps taken by competitors), economic or technological.

For further details, including regarding additional risk factors to which the Company is exposed, see chapter "Review of risks" in the Report of the Board of Directors and "Report on Risks – Disclosure in accordance with Third Pillar and additional information on risk at December 31, 2017" which can be found on the Company's website.

Targets and Business Strategy

The Company operates in line with strategic targets, taking into account the changes in the regulatory and business environment in which it operates and to the goals of the work program defined by the Board of Directors and in accordance with its instructions, and paying close attention to management of risk, according to the risk appetite approved by the Board of Directors, and while regularly updating it regarding orderly processes on the Company's activity and results.

The strategic targets of the Company are as follows:

Focus on the customer: Developing solutions and adapting a service package and products for customers in the various operating segments. Strengthening the customer experience and expanding the added values to the various customer sectors, creating preference, conservation, loyalty and quality service.

In the area of focusing on the private customer, the Company has continued to deepen the infrastructure and work processes that support the management of the customer experience, including striving to manage effectively the customer benefit plan as part of the loyalty program. As part of the benefits plan, the Company intends to focus on expanding the range of benefits to customers in the worlds of leisure, entertainment and shopping, while adapting the benefits to customer behavior and needs, and upgrading the experience on the digital platforms, in order to improve satisfaction and reduce churn. The Company will continue to maintain a broad concept of retention while managing supportive work processes, such as action plans for new customers ("Welcome") and retaining customers in a wide range of contact points with the customer.

As part of the Company's coping with the growing competition in the market, the expected changes under the Strum law and the understanding of the changing customer requirements, and with the aim of strengthening and growing in the non-bank credit card market, the company intends to develop new value proposals tailored to different populations, in collaboration with strong content partners and potential target populations. At the same time, the Company intends to develop alternative distribution channels, both digital and physical.

In the field of focusing on the business customer, the Company continues to promote the development and assimilation of tools and processes that were built in order to cope with the increasing competition in the field of acquiring, including the assimilation of processes that enable the Company representatives an overall view of the merchant in order to deepen the products and services provided to it through a new automated process.

In addition, the Company continues to develop innovative technological solutions for expansion into new venues, such as: payment network, cooperation with Eazymatch Ltd. (which deals, inter alia, with credit card reconciliations), and others.

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

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

The Company will continue to take steps to create a preference and a diversion to the Company's card payments, as well as to non-electronic payments, with an emphasis on penetration into new sectors of activity, which at the date of signing the report, are not characterized by the use of credit cards, at the same time as expanding activity in existing sectors. The Company intends to continue to focus on increasing the cardholder's transaction volumes, while focusing on steps to deepen its usage abroad (including a digital platform), with the aim of increasing its market share.

In the area of acquiring, the Company operates in a highly competitive market, coping with significant price reductions by other players in the market in order to increase their market share, and in light of the directives of the regulator whose aim (in his view) is to enhance competition in the acquiring market, with an emphasis on encouraging the entry of new competitors into this market. In addition, there has been an increase in the number of players in the past year who began acquiring operations (such as aggregators), a trend which affects the acquiring fee and weakens the connection with merchants. The competitive conditions in the market and the increasing regulation lead to a continuous erosion in commission rates. At the same time, the Company focuses on strengthening and preserving the acquiring activity.

The world of e-Commerce continues to be a major focus in the company's activity, in light of its growth in the Israeli market, both on the part of customers through shopping through websites, abroad and in Israel, as well as on the part of merchants in Israel. The Company invests resources to encourage customers in the area by collaborating with leading entities in Israel and abroad, and developing dedicated solutions in this area for the merchants in order to increase its market share in the acquiring of e-Commerce transactions.

Advanced digital infrastructure: In the digital field, the Company will take steps to expand the infrastructure for customer digital activity, while developing the various digital platforms and expanding the customer base for communication and digital activity, with an emphasis on customers moving to online channels at the expense of channels operated by the Company's representatives.

The Company's strategy in the digital field is to enable a multi-channel, personal, simple and advanced customer experience and to transform the channel into a leading sales platform. In this context, the Company is working, inter alia, on a significant upgrade of the Company's websites and applications. As part of these steps, infrastructure was established connecting the customer's activity in the digital worlds (websites and applications) to the rest of his activities at the Company. The aim of the measures is to enable a better quality customer experience, to receive information and services in the various digital channels, to streamline processes in the service sector and to divert activity to unmanned channels, while providing significant added value to the customer's activity in these channels.

The Company operates with a significant investment in the promotion of digital services to customers, while developing the ability to analyze and draw conclusions from the customers' actual activity in the digital channels in order to constantly improve these processes, including analysis of uses in various processes, such as simple registration for the secured zone, simplification of entry to the secured zone, an all-purpose loan in the digital channel, rapid recovery of the pin code, a "quick glance" at the application and a substantial improvement in customer data ("digital customer").

Information as a competitive advantage: As part of the Company's activity in the credit card sector, it is engaged in a multi-data environment. The Company invests considerable resources in promoting its capabilities to extract and process the data, both for the purpose of optimal analysis and management of its business operations and for the purpose of deepening its familiarity with its customers and adapting the proposals to their needs and preferences. In addition, the Company is taking steps to promote a data-based business culture, including the implementation and assimilation of advanced modeling and analytical capabilities, the application of processes and models based on artificial intelligence systems, and the assimilation of solutions that enable business entities to analyze data and draw conclusions independently.

Development of new growth engines: The Company, as part of the Isracard Group, is taking steps to advance issues and agreements that will ensure the Company's continued place as an innovative company, including through collaborations with entrepreneurs in the forefront of technological / business innovation in the developing worlds of payments and the credit worlds, as well as in developing payment solutions and added values for the Company's private and corporate customers, while creating a long-term competitive advantage and a significant contribution to the Company's results over time.

Efficiency and process excellence: Establishing processes of organizational flexibility and efficiency, while maintaining processes for monitoring and optimal resource utilization in the organization.

All of the activities are carried out while maintaining a high quality of risk and fraud management systems, control of fraud prevention and as part of the Company's risk appetite.

For details of the changes in the regulatory environment, in the macroeconomic and competitive environment, and in the technological changes in relation to the Company's areas of activity, see the sections "Trends, phenomena, significant developments and changes", "Economic and financial review" and "Regulatory proceedings" in the Report of the Board of Directors and the details under the heading "Outstanding trends in recent years in the segment" in the description of each segment in the "Operating Segments" in the Report of the Board of Directors.

The intentions of the Company's management as stated in this section above are forward-looking information, as defined in the Securities Law, based on the assessments of the Company's management and its understanding of the situation in the credit market in Israel and around the world, as of the date of signing the report. These intentions may not materialize, in whole or in part, or may materialize differently, including materially different from that expected, as a result of inaccurate assessments, changes in the Company's work program, unexpected changes in the credit market in Israel and/or abroad and/or the risk factors set forth in the section "Risk review" in the Report of the Board of Directors and in the Report on Risks for 2017.

Strategic cooperation and significant agreements

Agreement with Isracard

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

Contractual arrangements with the international organization

In May 2016, the agreement with the worldwide American Express organization, with regard to the issuance and acquiring of American Express cards, was renewed. The agreement is for a further five years as of January 1, 2017. By virtue of this agreement, the Company continues to use the franchise for issuing and acquiring American Express-type credit cards. In addition, by virtue of its membership in the American Express organization, the Company has a general user-right to the brands owned by the American Express organization.

Agreements with the "American Express organization" (hereafter "American Express")

To the best of the Company's knowledge, the American Express organization is engaged in the area of solutions and the means of payment and supplies services in a large number of companies throughout the world. There is system of engagements between the Company and Amex (as revised from time to time, the last being in January 2017) and the Company is also subject to the procedures and principles stipulated by Amex (principles which periodically are changed at the exclusive discretion of Amex (hereinafter "**the Amex rules**"), pursuant to which, inter alia, the Company's rights and obligations in connection with the issuance, acquiring and operations of American Express credit cards are regulated, including fees, various payments and guarantees to Amex, restrictions and various provisions with regard to the operation and use of American Express brand credit cards (including the Company's charge in the fulfillment of a benefits plan for cardholders), various arrangements with regard to the enlistment of merchants for agreements for acquiring the American Express brand, etc. The said brand license is exclusive to Israel and for a period of five (5) years commencing January 2017 (hereinafter: "**the Amex license**"). As at the date of signing the report, Bank Hapoalim has guaranteed the said obligations of the Company vis-à-vis Amex.

Pursuant to the Company's current activity within the framework of the license, Amex is actively involved in the decision making process with regard to the various operational subjects (including, marketing, external media advertising, the provision of benefits to customers, public relations, recruitment of cards, enlistment of merchants, etc.)

As part of the Company's settlement of accounts with Amex, the Company is required to pay various fees (as provided in the Amex rules and in other business agreements with the organization), some of which are fixed and some of them at variable rates / amounts, which are derived, inter alia, from acquiring volumes, issuance volumes and the number of cards, - and also determined in accordance with various business processes carried out by the Company to expand the volume of activity in the brand (sometimes as credits / refunds).

Pursuant to the Amex license, and the Amex rules, various grounds have also been determined whereby Amex may (subject to arrangements and conditions provided, including in connection with giving advance notice, right of remedy, etc., as the case may be) terminate and/or suspend the Company's license and/or revoke its exclusivity and impose penalties (which are liable, in certain circumstances, to amount to material sums), as applicable, including: (1) failure to comply with the payment of commissions to Amex; (2) if there is a proceeding, such as a liquidation, bankruptcy, insolvency or a decision of an authority from the State authorities to terminate its activity; etc., (3) if the Company does not comply with the volumes of the business activity program and/or the targets set; (4) if there is a change in the ownership / control in the Company (of twenty-five percent (25%) or more), which occurred as the result of the sale of shares and/or a merger and/or any similar significant event; (5) if there a material change in the financial conditions or in the results of operation of the Company that will bring Amex to the conclusion that the Company is likely not to fulfill its obligations towards it; (6) if the Company acts contrary to the Amex rules or a material breach of the conditions of the Amex license was committed; etc. To the best of the Company's knowledge, as of the date of signing the report, the Company meets the significant conditions of the Amex license.

Agreements with various Banks Under Arrangement for the issuance of bank cards

As of the date of signing the report, there are various engagements and agreements (whether by virtue of an agreement or by virtue of agreements by which the parties actually operate) between the Company and Bank Hapoalim, Bank Mizrahi Tefahot Ltd. ("**Bank Mizrahi Tefahot** "), Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), the First International Bank of Israel Ltd. (hereinafter: "**First International Bank**"), Bank Massad Ltd. (hereinafter: "**Bank Massad**"), Bank Otsar Hahayal (hereinafter: "**Bank Otsar Hahayal**") and Bank Igud Ltd. (hereinafter: "**Bank Igud**") (collectively, hereinafter: "**the Banks in the Arrangement**" and "**the arrangements with the Banks in the Arrangement**", respectively), the substance of which is the regulation of the relationship between the parties in connection with the issuance of cards from the Company's brands (wholly or partly, as applicable) to the customers of the Banks in the Arrangement, including in connection with the monetary settlement of accounts between the parties in connection with the issuance, distribution and use of cards and the responsibility of the parties to honor debits and uses of the cards as aforesaid.

Each of the Banks in the Arrangement has been granted the power to determine which of its customers would be fit to join the Company's credit card arrangement and to recommend to the Company that it be included, except in relation to certain situations and circumstances provided in the arrangement with each bank, the main ones relating to the misuse of cards, the responsibility to use the card after its cancellation, the responsibility for using the card after its expiration, etc. Each Bank in the Arrangement is responsible for honoring the full amount of the debits and for paying the amounts which its customers will be debited in connection with their activity in the bank cards issued to them by the Company (in connection with that bank); Pursuant to the specific agreements between the Company and each of the banks mentioned in the Arrangement, various monetary settlements of accounts have been arranged in connection with the issuance, distribution and use of bank cards in respect of each bank, such that each of the parties is entitled to certain payments or to participation in the other's expenses/income in connection with the Arrangement, which differ between them, both in the types of payments paid to each bank and the amounts/rates paid for each type of payment as stated and/or the type/brand of the card and/or the club affiliation of the card, etc.

For details regarding the limitations and expected effects of legislation (particularly the Strum Law) on the Company's agreements with the Banks in the Arrangement, see the section "Regulatory proceedings" in the Report of the Board of Directors.

Agreements with customer clubs

As part of the activity of the Company's customer clubs, the Company generally enters into agreements from time to time with various entities representing various groups of customers, for the issuance of credit cards to those belonging to the same groups of customers (hereinafter: "**club members**") and, in some cases, customer clubs are established and managed by the company itself.

The cards issued to club members usually, and if applicable, grant them discounts (including discounts/exemption from card fees for certain periods), credit under preferential terms, gifts on enrolment, special benefits and services in a variety of merchants that honor the club cards, all according to the conditions of each of the clubs. The entities participate in the activity of the Company's customer clubs, including, inter alia, consumer bodies and commercial corporations, employee organizations and professional organizations, which wish to issue a club card to their customers and/or their employees by means of the Company’s credit cards. The Group's customer clubs can be classified into three main categories: (1) clubs for organizations and free professions, such as the Hever Club (for career and retired members of the armed forces, security forces, members of the IDF Disabled Veterans organization and their spouses), the HOT Club (for engineers, technicians, academics in the social sciences and the humanities, social workers and their spouses), members of the Israeli Bar Association, the Institute of Certified Public Accountants in Israel and tax advisors.(2) consumer clubs, such as Life Style and El Al Flycard; (3) clubs of various banks in general. As part of these agreements and according to the specific agreements between the Company and each club from time to time, the Company usually pays the clubs various amounts in respect of the club cards issued by the Company to club members.

Main service suppliers

From time to time and as necessary, the Company enters into agreements with suppliers for services in various fields, including various technological services, telemarketing services for the operation of call centers and sales, security services, cleaning, catering and more. The following are details of the Company's main service providers:

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

Banking Acquiring Center and Automatic Bank Services Ltd.

To the best of the Company's knowledge, Banking Acquiring Center ("**Masav**") operates an electronic acquiring system for credits and debits which are transmitted electronically between banks and customers of various banks, to debit or credit (as applicable) bank accounts. The Company uses Masav's service on a regular and ongoing basis. Automatic Bank Services Ltd. (hereinafter: "**ABS**") serves as a communications channel between merchants and acquirers. To the best of the Company's knowledge, in September 2017, it was determined by the Bank of Israel that ABS would make available the communications protocol used to execute card transactions to all users in the market, without consideration. In order to implement the transfer of the protocol, the Antitrust Authority ordered the establishment of an association to which ABS will transfer all of its rights in the communications protocol for no consideration. In accordance with the instructions of the Antitrust Authority, the association will enable any user of the protocol to join it at no cost, and that the voting rights in the association will be determined such that it gives appropriate representation to all users. Discussions are currently underway in the Bank of Israel's Card Committee regarding the regulations. Except for debit/credit transactions through accounts maintained at Bank Hapoalim, which are executed using a direct interface with Bank Hapoalim itself, and transactions with merchants which are acquired abroad, all of the transactions in the Company's credit cards are executed via the ABS and Masav systems. To the best of the Company's knowledge, ABS and Masav are banking corporations (by virtue of their being joint service companies (as this term is defined in the Banking Licensing Law), which share a common technological infrastructure and joint work teams in many areas and are managed by one chief executive officer.

As at the date of signing the report, the Company is materially dependent on the services provided by ABS and Masav. In the absence of the receipt of services as aforesaid, the Company's operations may be materially affected. To the best of the Company's knowledge, as at the date of signing the report, there is no significant alternative local entity which can supply the market in Israel, and in particular, the Company, with alternative services to those provided to credit card companies by ABS and Masav.

Be'eri Printers (Limited Partnership) (hereinafter: "**Be'eri Printers**") - The Company and Be'eri Printers have a system of agreements (which is periodically updated), pursuant to which Be'eri Printers provides the Company with production, printing and binding services for the details of the debits and credits which the Company sends on a monthly basis to card-holders and merchants, as well as the Company’s binding and delivery services. Pursuant to the agreement with Be'eri Printers, as aforesaid, various generally accepted provisions are regulated, inter alia, regarding the calculation of the consideration for the services to be granted to the Company (calculated, inter alia, according to criteria for the quantity of printed material, type of printing, etc.); with regard to maintaining confidentiality of the information transmitted between the parties; with regard to liability for damages and indemnification in respect thereof; etc;

To the date of signing the report, the term of the Company's agreements with the Be'eri Printers has been extended from time to time for fixed periods of one year at a time, in accordance with the mechanisms and up to the dates provided. Each of the parties has the right to terminate the engagements by giving advance notice of thirty (30) days, and further generally accepted provisions have been agreed, on fulfillment of which each party may bring the engagements to an immediate termination.

According to the Company's assessment, in the event of the cancellation of the agreements with the Be'eri Printers for an unexpected reason or without advance preparation, the Company would have temporary difficulty in obtaining the service at the level currently provided. However, it would be possible to prepare in advance to obtain similar services from other companies. In accordance with the provisions of Proper Conduct of Banking Business Directive No. 357 (Information Technology Management), the Company's engagements with Be'eri Printers (and/or an alternative supplier) require the approval of the Supervisor of Banks. The Company has received such approval in connection with its agreements with Be'eri Printers.

Major planned projects

Credit database - The credit database is a regulatory project, pursuant to which the Company is required to store and report in accordance with a format stipulated by the Bank of Israel on the credit extended to its customers. In accordance with the said directives, the Company is required to establish a database for consumer products (set up by the Company) and a database for business products. The Company is in the process of completing the database by the end of the third quarter of 2018.

Digital Program - The Company's digital activity includes websites, applications, IVR (interactive voice response) and the entire digital experience for end-customers. The Company is taking steps to improve the customer experience on the digital front, to continuously add services and information to digital channels, and to enlist and encourage customers to use advanced digital channels in order to provide the customers with a broader, more efficient and faster user experience and service with better availability. Pursuant to the aforesaid activity, the Company invests in the upgrade and launch of new applications and websites, which include advanced functionality and innovative experience, as well as the possibility of making payments using mobile devices, and the Company is upgrading the technological infrastructure for the digital activity.

Sources of finance

The Company finances its ongoing operations mainly via credit from banks and cash flow from ongoing activities in a committed line from the parent company. In addition, the Company regularly tracks the mix of sources of finance and has established limitations in order to ensure appropriate dispersal of the sources of finance.

The Company, as part of the Bank Hapoalim Group, may be limited periodically in the receipt of credit from other banking institutions due to the directives of the Banking Supervision Department, which include, among other things, restrictions affecting the ability of banking corporations in Israel to extend credit beyond certain volumes, including limits referring to the total indebtedness of a "single borrower" or of a "group of borrowers" (as these terms are defined in the directives). The Company believes that as at the reporting date, there is no effective restriction in receiving credit under the aforesaid directives.

Explanation and Analysis of Results and Financial Position

Trends, Phenomena, Developments and Significant Changes

Management's handling of material current topics

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

Among other things, analyses and in-depth discussions are conducted in management regarding consumer trends and their impact on the Company's operations, changes in the risk environment of the Company, the economy, private consumers and merchants, the impact of various regulatory directives, etc. Also, discussions are held regarding the Company's policy in the various areas of activity, and the Company's policy documents are periodically approved. Management monitors the development of the mix of its various products, particularly the credit product mix, with detailed reference to the development of the risks and adherence to the Company's limitations set by the Board of Directors and the policy documents. Management discusses the development of operational, cyber, compliance, legal, strategic, regulatory, reputational risks, market and liquidity risks and credit in the Company.

In light of the technological and regulatory developments in the Company's areas of operation, discussions are held in the management forum with regard to products and technologies in Israel and around the world, and their effect on the Company, such as alternatives to credit cards as means of payment, etc.

Management monitors the development of key processes, projects and products, while reporting the progress status of the parties responsible for the subject. In addition, management conducts discussions in anticipation of events that have a potential impact on the Company's current operations, while examining the preparedness of all the parties, such as examining the Company's preparedness for cyber events in Israel and the introduction of new products and processes.

In its weekly meetings, the management monitors the development of the Company's business indicators, with a monthly in-depth discussion of the developments and trends of all the business operational parameters in the various operating segments.

The credit card sector in Israel

As of the date of the report, the following companies are active in Israel in the area of the issuance and clearing of credit cards: (1) The Company, which exclusively issues and clears American Express credit cards; (2) Isracard, which issues and clears Isracard-type credit cards, and jointly with Europay, issues and clears MasterCard-type credit cards, and also issues and clears Visa-type credit cards; (3) Leumi Card Ltd. (hereinafter "**Leumi Card**"), which, to the best of the Company's knowledge, issues Visa and MasterCard-type credit cards and clears Visa, MasterCard and Isracard-type cards; (4) Credit Cards for Israel (hereinafter "**CAL**"), which, to the best of the Company's knowledge, issues Visa and MasterCard and Isracard-type credit cards and clears Visa, MasterCard and Isracard-type cards, (5) Diners Club Israel Ltd., a subsidiary of CAL, (hereinafter "**Diners**"), which, to the best of the Company's knowledge, issues and clears Diners-type credit cards; (6) In addition, to the best of the Company's knowledge, in April 2017, Tranzila Ltd. (hereinafter "**Tranzila**") received an acquiring license from the Bank of Israel; (7) In September 2017, Jerusalem Bank announced that it had received an issuer's license from MC and that it would commence issuing credit cards while using a foreign company as an issuer.

The Israeli payment system has been in constant change in recent years as a result of the implementation of various regulatory reforms, technological developments and global developments. This change has led, inter alia, to the advancement of ventures in the field of means of payment, both by the banking system in Israel and by other business entities.

Details regarding trends, phenomena, developments and material changes that have occurred in recent years in the sectors in which the Company operates are as follows:

Significant regulatory changes in the credit card market in Israel

In recent years, there has been a significant increase in legislation and regulatory directives and in reforms in the banking sector, in general, and in the sectors of credit and credit cards for private individuals, in particular, inter alia, with the intention of the regulator being to promote competition in these sectors. The aforementioned regulations and legislation have a significant impact on the Company's activity. The following are the main regulatory developments, as aforesaid, (some of which have not yet been completed as of the date of signing the report): the separation of credit card companies from banks, with the definition of rules and restrictions with respect to the operation, issuance and acquiring of credit cards, access to information and contact with customers, pursuant to the reform of the Strum Law and its derivatives (see section "Regulatory proceedings" in the Report of the Board of Directors); regulatory proposals relating to the provision of customer service; the Fair Credit Law regarding the setting of an interest ceiling that will apply to all lenders in the economy, as well as establishing rules relating to the procedure for extending credit; establishment of a credit database for the credit market; granting a license to view the customer's account data and issuing a bank identity card that provides information about the customer's banking activity; a document of principles and a memorandum of a law on the regulation of payment services, including principles for the regulation of payment services, based on the European Payment Services Directives, PSD and PSD2, while making the necessary adjustments for the domestic market; promoting the issuance of debit cards (immediate debit), while obligating the banks to offer these cards to their customers; granting reliefs for the receipt of acquiring licenses and determining the duty of hosting acquirers under certain conditions; regulating the activity of aggregators pursuant to the Strum Law and providing restrictions in connection with the refusal to enter into acquiring agreements with aggregators without reason; opening ABS systems to new acquirers and issuers, the Supervision of Financial Services (Regulated Financial Services) Law, 2016; provisions for implementing the EMV security standard; etc. In addition, it should be noted that, in the past year, the Company has seen a trend of implementing consumer protection laws through the amendment of the provisions of the law applicable to banking corporations, even to banks and credit card companies that, to date, have not been subject to this law.

For further details regarding the regulatory trends and proceedings in the area of the business activity in which the Company operates and regarding the wider (including future) implications of such changes and reforms on the Company and the competitive environment in which it operates, see the section "Regulatory proceeding " in the Report of the Board of Directors.

As at the date of signing the report, the Company is taking steps on several levels in order to prepare for the implications of the abovementioned changes in the market, inter alia, as set forth in the "Targets and Business Strategy" section of the Report of the Board of Directors. The Company's preparation as aforesaid requires and may necessitate, in the future, the investment of financial resources and other inputs of significant scope.

Technological developments

As a rule, the development of the payments system in Israel and around the world has been gaining momentum in recent years, and electronic payments (inter alia, credit card transactions) are taking the place of transactions using paper-based means such as cash and cheques. Technological development has led to the creation of payment means that enable consumers to pay in new remote ways, such as through phones, watches and smart bracelets, instead of using physical cards.

Changes in customer preferences and expectations

With the development of technology, consumer preferences and the nature of the means of payment are changing, with more advanced means of making purchases and payments entering the market, taking a market share at the expense of the traditional means that have been prevalent in the market until now.

The e-commerce sector in Israel has grown significantly in recent years. As part of the growth in this area, the area of payments using "Mobile" is also growing, and is seizing a significant share of total online purchases.

In addition, the use of "digital wallets" by consumers and merchants is increasing (for P2P and B2C transactions), with these being used for money transfers and for making purchases.

Entry of new competitors into the Company's areas of activity

As a result of technological and regulatory changes and changes in consumer preferences and expectations, the sector is experiencing the entry of new competitors and increased competition, inter alia, in services performed without the interface of the banking system or the credit card companies. See also the paragraph "The credit card sector in Israel" above. In addition, in recent years, "aggregators" have entered the sector - businesses whose activity is the concentration of debits and credits of other merchants in which retail operations have been carried out, in which a card holder purchases assets or services for which he pays by card, whether directly or indirectly. New players from tangential worlds - Recently, players from industries interfacing with the payments sector are expanding their activities, creating new threats to the traditional players in the banking and payment sectors, and are increasing local competition, such as payment applications, credit proposals provided by retail chains, etc.

See also "Description of the Company's Business by Operating Segment" in the Corporate Governance Report under the heading "Competition" in each of the operating segments.

Economic and Financial Review

Economic development in the domestic market

The preliminary estimates of the Central Bureau of Statistics for 2017 indicate a growth rate of 3.0%, a decrease of about 1 percentage point from the previous year's growth. However, most of the slowdown in growth was due to a decline in motor vehicle imports, and excluding this effect, growth was stable at 3.5% in the past two years. Given that the economy has very low rates of unemployment relative to the past, and apparently, is in a situation of "full employment", it can be said that these growth rates are high and reflect the economy's potential at this time. From the point of view of uses of GDP, the continued rapid growth of 4.2% in private consumption excluding vehicles, a sharp increase of 8.2% in exports of services, and an increase in investments can be noted. The growth of the economy in the past year was, as stated, based more on domestic demand, and this was reflected in the decrease in the rate of private savings in the economy. This is not a worrying figure, given the high level of private savings, and the fact that the government deficit is small. The unemployment rate, as aforesaid, continued to decline during the past year and stood at an annual average of 4.2%, compared with 4.8% in 2016. Alongside the decline in the unemployment rate, pressures for increases in salaries also strengthened. The average wage in the economy rose by 3.5% in the first ten months of the year compared to the same period in 2016. Total purchases by private consumers in credit cards in 2017, as published by the Central Bureau of Statistics, rose by 8.9%, seasonally adjusted, compared to the same period last year.

Fiscal and monetary policy

The Bank of Israel interest rate has been 0.1% since March 2015. The appreciation of the shekel and the low inflation have supported the very expansionary monetary policy. As of February 2018, short-term loan yields reflect no change in expectations for a change in the Bank of Israel interest rate in 2018.

Inflation and exchange rate

The consumer price index "for the month" rose in 2017 by a low rate of 0.4%. The housing component had the most positive impact on the index, and without it, the index would have fallen this year by 0.5%. Inflation in the last year was influenced by government policy, by the strengthening of the shekel and by increasing competition, particularly through online purchases. The effect of these is evident in items such as: furniture and household equipment which fell by 3.8% in 2017, clothing and footwear prices which decreased by 4.6% and communications prices which fell by 6.4%. On the other hand, items with a high service component, such as housing maintenance and health, have risen.

The shekel appreciated by 9.8% against the US dollar in 2017, while the euro depreciated by 2.7%. The effective basket of currencies appreciated by 4.2%. In 2017, the Bank of Israel purchased foreign currency in the amount of US$ 6.6 billion, of which US$ 1.5 billion was part of the purchases program intended to offset the effect of Israel's gas production on the exchange rate.

Developments in the Global Economy

Ten years after the beginning of the global financial crisis, it is now possible to say that the global economy has returned to growth, and policymakers have succeeded in restoring confidence in the financial markets. Nevertheless, there is still the aftermath from the crisis, such as high government and corporate debt, and a very expansionary monetary policy. The low interest rate has made a significant contribution to growth in recent years, while at the same time increasing asset prices, but the inflation measured in the prices of goods and services remains low, leaving the central banks in the US and Europe with considerable room to maneuver. Although most of the central banks have begun to curb monetary expansion, large gaps have emerged between the United States and Europe. While the U.S. interest rate has risen to 1.5%, in Europe, the central bank only just began to cut bond purchases in 2017. Global growth accelerated in 2017 and stood at 3.7%, up from 3.2% in 2016 (estimates by the International Monetary Fund). In the developed countries, the growth rate accelerated to 2.3%, compared with 1.7% in 2016, and in the emerging economies growth accelerated to 4.7% compared with 4.4%. The US economy grew by 2.3% in 2017. In the first quarter of 2017 there was weak growth of 1.2%, but in the following three quarters there was average growth of 3.0%

The economic and political risks in Europe continue to decline and the economic data continue to be good. Consumer and business confidence indices in the Euro Area are at a 10-year high and unemployment is declining. So far, the effects of the Brexit decision on economic activity in Britain have been relatively moderate. The emerging economies recorded a decline in economic risks, inter alia, in support of the increase in commodity and energy prices, and there was accelerated growth in most regions.

At the end of January, and in the first week of February 2018, there was a shake-up in global capital markets. The most prominent trends in the markets were a decline in share indices, an increase in volatility and an increase in yields on long-term bonds. The background for these developments is the concern of investors of acceleration in inflation and faster rate increases by the central banks. The U.S. economy is growing rapidly, even before the effect of tax cuts and the increase in federal spending. The combination of an economy in full employment, rising wages and a significant fiscal expansion, is likely to eventually raise inflation.

Regulatory proceedings

The following is a summary of significant regulatory developments that have occurred in recent years, which are relevant to the Company's areas of activity and which, according to the Company’s assessment, impact (or may impact, as applicable) the Company's business materially. Note that the description below does not constitute an exhaustive list of all the regulatory directives to which the Company is subject, or of all the changes that have occurred in the aforesaid provisions during the said year.

1. In June 2015, the Supervisor of Banks published several directives aimed at implementing recommendations and measures to expand the distribution and use of cards in Israel. Pursuant to the directives, inter alia, the Banking Supervision Department established directives for the distribution of an immediate debit card to customers of the banks by the banks, rules for the settlement of accounts for immediate debit transactions (including: crediting the merchant for immediate debit transactions within 3 days from the date of the transmitting the transaction, with effect from April 1, 2016), etc. In August 2015, an order was published (whose effective term was extended through December 31, 2018), in which the Governor of the Bank of Israel announced the interchange commission for immediate debit transactions as a regulated commission and its price was set at a rate of 0.3% of the transaction amount, commencing April 1, 2016.

   On February 25, 2018, after receiving the comments of the public, the Bank of Israel published the final outline for reducing the interchange fee. The outline for lowering the interchange fee in deferred debit transactions will be as follows: from January 1, 2019, the interchange fee will be reduced from 0.7% to 0.6%; from January 1, 2020, interchange fee will be reduced from 0.6% to 0.575%; from January 1, 2021, interchange fee will be reduced from 0.575% to 0.55%; from January 1, 2022, interchange fee will be reduced from 0.55% to 0.525%; from January 1, 2023, interchange fee will be reduced from 0.525% to 0.5%.

   With respect to the fee paid for immediate debit transactions, commencing January 1, 2021, interchange fee will be reduced from 0.3% to 0.275%; from January 1, 2023, interchange fee will be reduced from 0.275% to 0.250%.

2. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 472 regarding acquirers and the acquiring of transactions in debit cards, pursuant to the provisions of the Banking Licensing Law. The directive relates to financial entities whose main activity is the acquiring of transactions in cards, and outlines the main rules for the acquiring activity. The directive eases some of the regulatory requirements imposed on credit card companies and acquirers, including easing capital requirements. In addition, the directive enables the acquirer to lease EMV-enabled terminals to businesses, subject to the terms of the directive. The directive also relates to various aspects which apply to acquirers

and which previously appeared in Proper Conduct of Banking Business Directive No. 470 and details the provisions of Proper Conduct of Banking Business Directives which apply to a acquirer. Directive 470 extended the applicability of some of the protections contained in Cards Law to credit card holders, as well as to immediate debit card holders.

3. In June 2015, the Banking Supervision Department issued a directive to implement the EMV security standard, both on the part of the issuance segment and on the part of the acquiring segment, which was also incorporated in Proper Conduct of Banking Business Directive No. 470 and in additional directives. The directive and the directives of the Banking Supervision Department which were subsequently issued, including amendments to Proper Conduct of Banking Business Directive No. 472 above, refer, inter alia, to the time-tables for the issuance of cards supporting the EMV standard and to the connection of terminals supporting the standard to the new card system and to the inception of the mechanism for diverting responsibility from the issuer to the acquirer. The date for transferring responsibility is determined for January 1, 2019.

4. In July 2016, the Strum Committee (the Committee for Examining the Intensification of Competition in Common Banking and Financial Services), which was appointed by the Minister of Finance and the Governor of the Bank of Israel, published its recommendations and further thereto, on January 31, 2017, the "Strum Law" was published in Reshumot. Pursuant to the Strum Law, it was provided, inter alia, and subject to the conditions outlined in the law: to separate card companies from banks defined in the Law as "a bank with a wide scope of activity" within 3 or 4 years from the date of publication of the Law; to grant powers to extend the obligation of separation to another bank; to prescribe provisions relating to the acquisition of the means of control in card companies; to prohibit the large banks from issuing and acquiring their own cards; to grant protection with a time-limited temporary provision for new players, including card companies; to enable card companies to use the information at their disposal, inter alia, from the operation of the issue; to prohibit the major banks from issuing and acquiring the cards themselves; to prohibit certain banks from restricting or preventing an operating entity, as defined in the law, from providing financial services, including the provision of credit to customers of the bank; to compel all banks to offer all cards and the terms of all the issuers who requested that the bank do so; a prohibition on an acquirer to refuse to enter into an agreement with an aggregator, as defined in the law, without reason and the determination of rules relating to the engagement between them; the acquirer's obligation to engage with a host acquirer, as defined in the law, and in accordance with the conditions prescribed in the law and the rules to be determined (see section 5 below). On October 25, 2017, the Committee for Examination of Competition and Reduction of Concentration in the Banking Market in Israel published the tests for examining the state of competition in the credit market. On February 18, 2018, the Banking Supervision Department published a document entitled "General criteria and conditions for the applicant to control and hold the means of control in an acquirer and in a credit card company", and a presentation with supervisory emphasis on those interested in acquiring the separate credit card companies. The presentation shows, among other things, information about the companies, and strong points of the credit card companies and their main challenges.

5. In August 2017, the Banking Supervision Department published a draft for the public's comments on the Banking Rules (Rules For Hosting an Acquirer), which includes, inter alia, consideration of the hosting conditions, the hosting agreement, the hosting price and restrictions for acquiring a hosted acquirer.

6. In August 2016, the Supervision of Regulated Financial Services Law was published, according to which, for the first time, a framework was established for regulating the non-bank and non-institutional credit market in Israel, as well as an extension in all matters related to the currency service providers sector. Those engaged in the granting of credit, as defined in the law, will be subject to a license requirement, with the exception of exemption for certain entities according to law, including auxiliary corporations and those who are "acquirers" pursuant to the Banking Licensing Law. In addition, those who are engaged in the currency service provider sector, in the receipt of deposits and in services, such as the issue of prepaid cards, will be subject to the license requirement for the provision of services in a financial asset. In relation

to the granting of credit, the law came into effect on June 1, 2017, and in relation to services in a financial asset, the law will come into effect on June 1, 2018. On December 29, 2016, the law was amended, and the activities of cooperative societies engaged in deposit and credit services, and the issuance of credit cards by non-bank corporations, auxiliary corporations and other entities that received an exemption pursuant to the provisions of the law, were regulated. In addition, in January 2017, the law was amended and a chapter was added regulating a service for comparing financial expenses. In August 2017, an additional amendment to the law was published, which came into effect on February 1, 2018, according to which the operation of a system for mediation in credit between individual borrowers and borrowers (P2P) is subject to a license. As a rule, a banking corporation, an auxiliary corporation or an acquirer is not subject to a license to operate a credit broker. However, pursuant to the amendment to the law, banks and auxiliary corporations are prohibited from engaging in the operation of a credit broker, to control an operator of such a system and to hold the means of control therein, and if the system operator has sole influence over it, and if the operator of the system is an individual - to have influence over him, for a period of three years (3) from the inception of the law. Notwithstanding the aforesaid, a bank that has received a banking license from the inception of the law, as well as an auxiliary corporation, which immediately prior to the inception of the Strum Law, was controlled by a bank with a wide scope of activity, will during the year be able to hold up to twenty percent (20%) of a certain type of the means of control in the operator of a credit broker, providing that this does not give them control in the broker.

7. In August 2017, an amendment to the Non-Bank Loans Arrangement Law, 1993 was published. The amendment to the law will come into effect on November 9, 2018. According to the amendment to the law, the name of the Law will be changed to the Fair Credit Law. The amendment provides that, except for borrowers who are individuals, certain corporations to be determined will be included into the definition of borrowers, the ceiling on the cost of credit to be imposed on lenders in the economy (including banking corporations, auxiliary corporations and acquirers) and rules were determined relating to the procedure for extending credit, provisions regarding arrears interest etc.

8. In April 2016, the Credit Data Law, 5766-2016 was published, which is expected to come into effect in October 2018, establishing a credit data sharing arrangement, including the collection of credit data from the information sources set forth in the law, their retention in a central database operated by the Bank of Israel, and the delivery of credit data to the credit bureaus for processing and transferring them, inter alia, to credit providers, in accordance with the legislator's intention to improve the availability of credit data in the economy in order to increase competition in the retail credit market, increasing access to credit and reducing discrimination in this area. The law provides issuers of cards and banking corporations (including auxiliary corporations) as sources of information that will report to the database set up by virtue of the law. In addition, the law provides arrangements relating to the use of information in the database by credit providers and receipt of a credit indication from the credit bureau that holds the information.

9. In March 2017, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 411 regarding the management of the risks of prohibition of money laundering and the prohibition of the financing of terrorism. The amendment is in line with the latest international standards regarding the prohibition of money laundering and the financing of terrorism and is expected to assist in the acceptance of the State of Israel as a full member of the FATF. The amendment expands the existing provision on the subject and was re-edited as a risk management directive. The directive is effect from January 1, 2018.

10. In March 2017, the Knesset plenum approved in its second and third reading an amendment to the Prohibition of Money Laundering Law, which is intended to improve and enhance the fight against money laundering and adapt existing legislation to international standards in this area, further to the FATF agreement. In July 2017, the Knesset plenum approved in its second and third reading a further amendment to the Prohibition of Money Laundering Law, in which the definition of a "banking corporation" was extended to apply to an acquirer.

11. In February 2018, the Knesset Constitution Committee approved the Money Laundering Prohibition Order

(Duties of Identification, Reporting and Record-Keeping of Credit Service Providers for the Prevention of Money Laundering and the Financing of Terrorism). The Order regulates the obligations with regard to the prohibition of money laundering and the financing of terrorism of an entity that is required to obtain a license to grant credit in accordance with Chapter C of the Supervision of Financial Services (Regulated Financial Services) Law, 2016, which is a body listed in the Third Schedule to the Prohibition of Money Laundering Law, as well as a provider of discounting services and an aggregator.

12. In July 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 367, "Digital banking ", as well as an amendment to the supplementary provisions of the said directive, including Proper Conduct of Banking Business Directive No. 420 regarding the sending of online communications (an additional amendment to the directive was published in January 2018). In addition, in August 2016, a circular was published on the subject of "Types of accounts and conditions when the signature of a customer on an agreement is not required." The Directive on the subject "Digital banking" regulates the online activities of banking corporations with their customers, either an individual or a small business, and permits remote activity in a variety of banking services. Alongside the reliefs, the directive stipulates principles for risk management in online banking, both in the internal systems and processes in the banking corporation and in dealing with the customer. The directive came into effect in January 2017. In March 2017, an amendment to the directive was published. In January 2018, the Banking Supervision Department issued an amendment to the directive, including, inter alia, regulation regarding the sending of a voice message, as well as regulating the manner of transferring data regarding a balance in a current account from a banking corporation to a financial entity, pursuant to the provisions of the Strum Law.

13. In August 2015, the Bank of Israel published an interim report on the "Conducting transactions in cards", which includes recommendations for increasing competition, efficiency and stability in the card market, which, according to the Bank of Israel, is expected to remove the existing barriers in the market and enable the entry of new players. In July 2016, as part of the report's conclusions, the Bank of Israel published the document "Principles and related measures for the development of a protocol for the execution of a transaction in a card and its use", which presents the principles of the protocol (technological specification and interface structure used to transfer data about a transaction in a card between parties in executing a transaction) and the recommendations for related measures for implementing the principles, and also published the terms of access to the controlled payments systems. In May 2017, the Bank of Israel published the components of the protocol.

14. In October 2016, the recommendations of the final report of the Inter-ministerial Committee to Promote the Use of Means of Payment were published. The principles in the document will serve as the basis for a memorandum of a law on the subject. The principles were based on the European Directives for Payment Services, PSD and PSD2, while making the necessary adjustments to the domestic market. One of the objectives of the Payment Services Law, as defined in the document of principles is to adapt the consumer protections in the area of payment services and to determine the terms of use and uniform consumer protections, as far as possible, in receiving payment services from the various payment service providers and through the various means of payment. However, each regulator will be authorized to set additional provisions for the entities under its supervision according to their characteristics. Entities in the financial market will be able to choose the license appropriate to them according to their type of activity and level of risk. In July 2017, as part of the Committee's recommendations, a draft memorandum of the Payment Services Law, 2017 was published. The memorandum seeks to regulate the relationships between a payment service provider and a payer, and between a payment service provider and a beneficiary when using an advanced means of payment, as well as to provide general instructions regarding the execution of payment instructions and related warranty arrangements Pursuant to the memorandum, inter alia, the Charge Cards Law, 1986, will be replaced by a more up-to-date law.

15. In July 2017, the Knesset plenum approved in its first reading the Consumer Protection Law (Amendment No. 55) (Professional Human Response in a Call Routing System), according to which a company providing a telephone service that includes an automated routing system will enable the consumer, immediately after

choosing the language in which the service will be provided, to receive a human response, at least, on issues of dealing with malfunctions, clarifying an account and terminating a commitment, while setting the maximum waiting period. Violation of the directive will enable the imposition of monetary sanctions on a business that is a corporation. In the deliberations of the Economics Committee, the Supervisor was requested, subject to the enactment of the law, to take steps to regulate the matter also in banking corporations.

16. Automated Banking Services Ltd. ("ABS") - ABS serves as a communications switch between merchants and acquirers. To the best of the Company's knowledge, in September 2017, the Bank of Israel determined that ABS would provide for no consideration the communications protocol which is used for making card transactions available to all users in the market. In order to implement the transfer of the protocol, the Antitrust Authority ordered the establishment of an association to which ABS will transfer all of its rights in the communications protocol for no consideration. In accordance with the instructions of the Antitrust Authority, the association will enable any user of the protocol to join it at no cost, and that the voting rights in the association will be determined in a manner that gives appropriate representation to all users. Discussions are being held at the Card Committee in the Bank of Israel regarding the regulations.

17. In July 2015, the Knesset plenum approved in its first reading a proposed Law to Reduce the Use of Cash, 2015. This bill is divided into two main levels: The first concerns the establishment of prohibitions and restrictions, such as a prohibition of the granting or receipt of cash payments within the framework of certain transactions in excess of certain amounts. The second level deals with determining arrangements that ensure the presence and availability of alternative means of payment that will be equivalent in terms of the use and cost, which the bill is proposed to limit. The discussion was transferred to a joint committee of the Constitution and Finance Committees for the purpose of approving the bill in a second and third reading. In January 2018, the Government approved a decision, pursuant to which, inter alia, the Bank of Israel announced that it was examining a number of issues, including the possibility of compelling the banking corporations to issue to their customers a combined immediate debit and credit card.

18. In February 2018, the Knesset Constitution, Law and Justice Committee approved, for a second and third reading, the Insolvency and Economic Rehabilitation Law, 2016, which deals with the process of the rehabilitation of debtors, individuals and companies. According to the proposed law, among other things, mechanisms were established for granting a discharge from debts to individuals (including managing the proceeding for debts up to NIS 150,000 in the Execution Office), and creating an infrastructure for making debt restructurings in companies.

19. In August 2011, an amendment to the Banking Licensing Law was published, whereby, inter alia, a person engaged in acquiring cards would be subject to the receipt of an acquiring license, while the entities that were engaged in acquiring activity at the date of the entry of the law into effect were granted relief in this regard. In addition, additional restrictions were stipulated, such as the duty of an issuer with a large volume of activity, an issuer who issued ten percent or more of the number of cards issued in Israel, or an issuer who, through the cards it issued, executed at least ten percent of the amount of the transactions executed in Israel [SB1] (as defined in the Law), to enter into an interchange-acquiring agreement with any acquirer, unless he refuses based on reasonable grounds. In addition, the amendment to the law includes an amendment to the Banking Law (Customer Service), 1981 ("the Banking Law, Customer Service"), which deals with the regulation of the discount market, and includes the imposition of various restrictions on acquirers, including the prohibition of discriminating between discount companies, a prohibition on engaging with a discounting company on unreasonable grounds and a prohibition on connecting acquiring services and other services. In 2015, directives and instructions were published by the Bank of Israel regarding the application for the license and the conduct of the acquirers. Isracard was defined by the Bank of Israel as an issuer with a large volume of activity for the purposes of the law, and subsequently, Isracard granted licenses for acquiring the "Isracard" brand to Leumi Card and Cal (for details see the section "The Acquiring Segment" in the Report of the Board of Directors under the heading "Acquiring arrangements with credit card companies and other arrangements regarding the sector"). In this context, it should be noted that the

Banking Law authorizes the Minister of Finance or the Banking Supervision Department (as applicable) also to consider additional corporations as part of the acquirer/issuer with a large volume of activity (a corporation in which the acquirer/issuer is an interested party; a corporation which controls an acquirer/issuer; and/or a corporation in which a person controlling an acquirer/issuer is an interested party) – thus, for example, a decision may be made that Poalim Express is part of Isracard with regard to its being an acquirer/issuer with a large volume of activity, and accordingly, the restrictions applicable to Isracard will also apply in this context. In this regard, in July 2017, the Ministry of Finance informed Poalim Express that insofar as the fees collected by it from the merchants in local transactions in the brand in which the acquiring and exclusive issuance will be gradually reduced, so that by the end of December 2017, the maximum fee will be 2.95%; by the end of December 2018, the maximum fee will be 2.45%; by end of December 2019, the maximum fee will be 2.10%; and at the end of June 2020, the maximum fee for a merchant will be 1.99%. For the time being, the Minister of Finance does not see the need to exercise his authority under section 36m(a) of the Banking Licensing Law, or to support law proposals that have the same meaning as exercising such authority, or that directly and specifically intervene in the brand fee beyond the aforementioned outline.

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

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

Disclosure regarding emphasis of matter paragraph of the Auditors

Sometimes, the independent auditor finds it appropriate to include a change from the unqualified version by the addition of a paragraph directing attention which is intended to emphasize a certain matter which significantly affects the financial statements and is included in a note to the financial statements. The addition of a paragraph directing attention, as aforesaid, does not affect the auditor's opinion. Therefore, this paragraph will come at the end of the auditor's report and will refer to the fact that the auditor's opinion is not qualified in this context. The auditors have directed attention to what is stated in Note 18B.2 to the financial statements regarding regulatory initiatives and Note 18C.6 to the financial statements with regard to a request to approve a certain claim as a class action against the Company,

Material developments in Income and Expenses

The Company's net profit in 2017 amounted to NIS 47 million, similar to last year.

The Company's profit per share in 2017 amounted to NIS 338, compared with NIS 340 last year.

The rate of return on net profit to average capital in 2017 stood at 11.9%, compared with 13.2% last year.

The rate of return on profit before taxes to average capital in 2017 stood at 15.7%, compared with 18.3% last year.

Income and expenses

Income from credit card transactions amounted to NIS 428 million in 2017, compared with NIS 405 million in 2016, an increase of 5.7%, attributable to the following factors:

- Net income from merchants amounted to NIS 330 million, compared with NIS 313 million last year, an increase of 5.4%.
- Income in respect of credit-card holders amounted to NIS 98 million, compared with NIS 92 million last year, an increase of 6.5%.

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

Net interest income amounted to NIS 2 million in 2017, similar to last year.

Expenses in respect of credit losses amounted to NIS 12 million in 2017, compared with NIS 10 million last year, an increase of 20%. The increase derives mainly from an increase in balances of receivables for credit cards.

Operating expenses amounted to NIS 119 million in 2017, compared with NIS 115 million last year, an increase of 3.5%.

Sales and marketing expenses amounted to NIS 104 million in 2017, compared with NIS 83 million last year, an increase of 25.3%, deriving from a net increase in expenses in respect of benefits to credit card holders and contractual arrangements with customer clubs.

General and administrative expenses amounted to NIS 38 million in 2017, compared with NIS 36 million last year, an increase of 5.6%.

Payments to banks amounted to NIS 90 million in 2017, compared with NIS 92 million last year, a decrease of 2.2%.

The provision for taxes on profit amounted to NIS 15 million in 2017, compared with NIS 18 million last year,. The effective tax rate of the total operating profit before taxes in 2017 reached 24.2%, compared with 27.7% in 2016. For additional details, see Note 8 Provision for Taxes on the Profits in the financial statements below.

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

Table 2: Operating data

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2017

	Active cards	Inactive cards	Total
Bank cards	351	99	450
Non-bank cards – Credit risk on the Company	141	87	228
Total	**492**	**186**	**678**

Number of valid credit cards as at December 31, 2016

	Active cards	Inactive cards	Total
Bank cards	347	103	450
Non-bank cards – Credit risk on the Company	137	81	218
Total	**484**	**184**	**668**

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

	For the year ended December 31, 2017	For the year ended December 31, 2016
Bank cards	18,746	17,059
Non-bank cards – Credit risk on the Company	4,700	4,244
Total	**23,446**	**21,303**

Definitions

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

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

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

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

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

Investments and Expenses of the Company for Information Technology

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

The Company has applied the provisions of Topic 350 regarding "Intangible assets – Goodwill and others". In view of the accounting complexity in the process of capitalizing software costs, and in light of the materiality of the amounts of the software costs capitalized, the Banking Supervision Department has provided directives for the Company on the topic of capitalization of software costs, according to a materiality threshold determined for capitalization. Every software development project, whose total costs is below the materiality threshold determined is treated as an expense in the statement of profit and loss.

Definitions relevant to the information presented:

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

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

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

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

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

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

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

Others: Mainly hardware maintenance and other expenses for information technology.

Table 3: Investments and expenses of the Company in respect of Information Technology

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2017 are detailed below.

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related	5	1	1	7
Expenses for acquisition or usage licenses not capitalized as assets	4	-	-	4
Outsourcing expenses	5	-	-	5
Depreciation expenses	1	-	-	1
Other expenses	3	2	2	7
Total	**18**	**3**	**3**	**24**

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

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

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

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

*	Amount less than NIS 0.5 million.

**	Includes outsourcing expenses.

(1)	Including communication infrastructure

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2016 are detailed below.

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related	4	1	1	6
Expenses for acquisition or usage licenses not capitalized as assets	3	-	-	3
Outsourcing expenses	5	-	-	5
Depreciation expenses	-*	-*	-	-*
Other expenses	4	2	2	8
Total	**16**	**3**	**3**	**22**

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

	Software	Hardware(1)	Other	Total
Costs of wages and related expenses	1	-	-	1
Outsourcing costs	1	-	-	1
Costs of acquisition or usage licenses	-	-	-	-
Costs of equipment, buildings, and land	-	-	-	-
Total	**2**	**-**	**-**	**2**

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

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

* Amount less than NIS 0.5 million.
** Includes outsourcing expenses.
(1) Including communication infrastructure

Development of assets and liabilities, capital and capital adequacy

Debtors in respect of credit card activity

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

Debtors' balances in respect of credit cards to private persons under the responsibility of the Company as of December 31, 2017 stood at NIS 392 million, compared with NIS 375 million last year, an increase of 4.5%.

Debtors' balances in respect of credit cards to businesses under the Company's responsibility as of December 31, 2017 stood at NIS 151 million, compared with NIS 118 million last year, an increase of 28.0%.

Credit balances to businesses under the Company’s responsibility as of December 31, 2017 stood at NIS 37 million, compared with NIS 39 million last year, a decrease of 5.1%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2017 stood at NIS 2,016 million, compared with NIS 1,887 million last year, an increase of 6.8%.

The balance of the allowance for credit losses in respect of debtors for credit cards to private persons under the Company's responsibility as of December 31, 2017 stood at NIS 13 million, compared with NIS 12 million last year, an increase of 8.3%.

The balance of the allowance for credit losses in respect of debtors for credit cards of businesses under the Company's responsibility as of December 31, 2017 stood at NIS 3 million, similar to the end of 2016.

The balance of the allowance for credit losses in respect of credit risk under the guarantee of banks and others as of December 31, 2017 stood at NIS 2 million, compared with NIS 1 million last year.

The balance of the allowance for credit losses in respect of commercial credit under the Company's responsibility as of December 31, 2017 stood at NIS 1 million, compared with an amount less than NIS 0.5 million last year.

2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2017 amounted to NIS 13 million, compared with NIS 12 million on December 31, 2016, an increase of 8.3%.

The balance of impaired debts as of December 31, 2017 amounted to NIS 3 million, similar to last year.

The balance of substandard debts as of December 31, 2017 amounted to NIS 3 million, similar to last year.

The balance of debts under special mention as of December 31, 2017 amounted to NIS 7 million, compared with NIS 6 million last year, an increase of 16,7%

Other balance sheet items

Cash and deposits in banks as of December 31, 2017 amounted to NIS 16 million, compared with NIS 22 million last year.

Other assets as of December 31, 2017 amounted to NIS 512 million, compared with NIS 551 million last year.

Creditors in respect of credit card activity as of December 31, 2017 amounted to NIS 2,692 million, compared with NIS 2,601 million last year. This amount includes mostly the balances for payment to merchants in which transactions of credit card holders have been made, which, as of the balance sheet date, had not yet been repaid.

Other liabilities as of December 31, 2017 amounted NIS 23 million, compared with NIS 21 million last year.

3. Off-balance sheet credit

Balances of unutilized credit facilities under the Company's responsibility as of December 31, 2017 stood at NIS 2,322 million, compared with NIS 2,249 million last year, an increase of 3.2%.

Balances of unutilized credit facilities under bank guarantee as of December 31, 2017 stood at NIS 5,208 million, compared with NIS 4,957 million last year, an increase of 5.1%.

Other off-balance sheet items

Exposure in respect of facilities to merchants as of December 31, 2017 amounting to NIS 10 million, compared with NIS 13 million last year, a decrease of 23.1%.

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

Capital, capital adequacy and leverage

Applicability of Implementation

The Company is subject to measurement and capital adequacy requirements. In general, the capital requirement of the Company is based on its financial statements, which are prepared according to Proper Conduct of Banking Business Directives – "Capital Measurement and Adequacy" 201-211, Proper Conduct of Banking Business Directive 218 "Leverage Ratio" and Proper Conduct of Banking Business Directive 299 "Regulatory Capital – Transitional Provisions".

Shareholders' equity, Tier 1 capital at December 31, 2017 amounted to NIS 416 million, compared with NIS 379 million last year, an increase of 9.8%.

Overall capital at December 31, 2017 amounted to NIS 437 million, compared with NIS 398 million last year, an increase of 9.8%.

Risk assets in respect of credit risk at December 31, 2017 amounted to NIS 1,815 million, compared with NIS 1,718 million last year, an increase of 5.6%.

Risk assets in respect of market risk for 2017 amounted to NIS 22 million, compared with NIS 11 million last year, an increase of 100%.

Risk assets in respect of operating risk at December 31, 2017 amounted to NIS 473 million, compared with NIS 438 million last year, an increase of 8.0%.

The overall capital to risk components ratio at December 31, 2017 amounted to 18.9%, compared with 18.4% last year.

Detailed information on Third Pillar in accordance with the Third Pillar disclosure requirements may be found in the Report on Risks for 2017 on the Company's website.

Table 4: Capital adequacy (1)

1. Capital for capital ratio computation purposes (NIS in millions)

	December 31 2017	December 31 2016
Tier 1 shareholders' equity and Tier 1 capital after deductions	416	379
Tier 2 capital	21	19
Total overall capital	**437**	**398**

2. Weighted balances of risk assets (NIS in millions)

	December 31 2017	December 31 2016
Credit risk	1,815	1,718
Market risks	22	11
Operating risk	473	438
Total overall capital	**2,310**	**2,167**

3. Capital to risk elements ratio

	December 31 2017	December 31 2016
Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio	18.0%	17.5%
Overall capital to risk elements ratio	18.9%	18.4%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (2)	8.0%	8.0%
Minimum overall capital ratio required by the Banking Supervision Department (2)	11.5%	11.5%

(1) Calculated pursuant to Proper Conduct of Banking Management Regulation Nos. 201-211, 299 regarding "Measurement and Capital Adequacy". In addition, these figures include adjustments for a streamlining plan, which were established according to the Supervisor’s letter from January 12, 2016 regarding “Operational Streamlining of the Banking System in Israel”, which are credited at equal rates.

(2) Pursuant to Proper Conduct of Banking Management Regulation No. 472 regarding “Acquirers and Acquiring of Debit Card Transactions”, which entered into effect on June 1, 2016.

(3) In March 2017, the Company distributed a dividend to its shareholders amounting to NIS 10 million.

Minimal capital ratios

On May 30, 2013, the Banking Supervision Department published 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 are 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, as of January 1, 2015, the minimum overall capital ratio will stand at 12.5% for the whole banking system, and 13.5% for particularly significant banking corporations, as of January 1, 2017.

In May 2016, the Banking Supervision Department published Proper Conduct of Banking Management Directive No. 472 regarding “Acquirers and Acquiring of Debit Card Transactions” that included relief for the acquirer regarding shareholders' equity requirements, which will be calculated in accordance with Proper Conduct of Banking Management Directives Nos. 201-211 (Measurement and Capital Adequacy). However, notwithstanding the provisions of Section 40 of Proper Conduct of Banking Management Directive No. 201, Tier 1 shareholders' equity will not drop below 8% and the overall capital ratio will not fall below 11.5%. This Directive entered into effect on June 1, 2016.

On February 26, 2017, the Board of Directors of the Company approved the capital adequacy targets, as specified below.

Capital adequacy target

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

The Company's capital adequacy targets are as follows:

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

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

Capital management

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

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

Guiding principles in capital management

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

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

Capital adequacy

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

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

Liquidity coverage ratio

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

Leverage ratio

As of April 1, 2015, the Company has implemented the provisions of Proper Conduct of Banking Management Regulation no. 218 "Liquidity Coverage" (hereinafter: "the provision"). The provision established a simple, transparent, non risk-based leverage ratio, which will act as a supplementary and reliable measurement to the risk-based capital requirement and which is intended to restrict the accumulation of leverage in the banking corporation and credit card company (hereinafter: "banking corporation"). The leverage ratio is expressed in percentage terms, and is defined as the ratio between the measurement of capital and the measurement of exposure. For further details, see Note 17 to the financial statements below.

Dividend distribution

In March 2017, after the approval of the Board of Directors and the General Meeting, the Company distributed a dividend of NIS 10 million to its shareholders. In 2016 and in 2018 (through the date of signing this report) the Company did not distribute additional dividends to its shareholders.

Operating Segments

General

The Company's operations are conducted in two segments of activity, constituting its core operations: the issuance of credit cards and the acquiring of credit cards.

Seasonality

The areas of issuance and acquiring are subject to fluctuations in income and in the results of operations, first and foremost, as a result of an increase in consumption, mainly at the New Year festivals, Passover and other holidays, which occur in different quarters in different years, which lead respectively to an increase in the use of credit products, including the use of credit cards and taking credit/loans for the purpose of financing the consumption.

Interchange fee arrangements

An interchange fee (also known as issuer's fee) is a fee paid by an acquirer of a card (through which a cardholder executes a payment in a merchant) to an issuer of the card. The issuer of the card actually collects the proceeds of the transaction executed by the cardholder in the merchant from the bank account of the cardholder and credits the acquirer with the full amount of the proceeds, net of the interchange fee (and in accordance with the arrangements between the acquirer and the issuer).

Fee arrangements in the "American Express" brand

As of the date of signing the report, Poalim Express is the exclusive license holder for the issuance and acquiring of "American Express" brand cards in Israel. For acquiring services where Poalim Express supplies to merchants with which it is connected, the merchant pays it a merchant's fee in accordance with the said agreement between the parties. In July 2017, the Ministry of Finance informed Poalim Express that the fees collected by it from the merchants in local transactions will be gradually reduced, so that by the end of December 2017, the maximum fee will be 2.95%; by the end of December 2018, the maximum fee will be 2.45%; by end of December 2019, the maximum fee will be 2.10%; and at the end of June 2020, the maximum fee for a merchant will be 1.99%. For the time being, the Minister of Finance does not see the need to exercise his authority under section 36 m (a) of the Banking Licensing Law, or to support law proposals that have the same meaning as exercising such authority, or that directly and specifically intervene in the brand fee beyond the aforementioned outline.

Regulation of the activity of aggregators

An aggregator is an entity which consolidates a number of merchants and provides them with acquiring services (in contrast to the customary alternative by which merchants enter into separate acquiring agreements directly with the acquirer), operating vis-à-vis the acquiring companies. Prior to the Strum Law, the existence of aggregators was permitted by virtue of Bank of Israel directives and pursuant thereto, aggregators were restricted to a concentration of merchants with an annual turnover of transactions not exceeding a stipulated threshold (NIS 50 thousand per annum). As of the date of signing the report, the Company is taking steps with a number of aggregators as aforesaid (with a scope of an aggregate transaction turnover which is not material to the Company), in accordance with commercial agreements made between the parties.

As part of the Strum Law, and with the aim of encouraging the competition in the area of acquiring merchants, various directives have been established in connection with the regulation of the activity of the aggregators in Israel (which is not contingent on the annual transaction threshold as mentioned above) and particularly, for the purpose of the imposition of restrictions on the refusal of an acquirer to enter into an agreement with an aggregator for irrational reasons. For further details, see section "Regulatory proceedings" in the Report of the Board of Directors.

To the best of the Company's knowledge, in July 2017, CAL and Gamma (which, to the best of the Company's knowledge, is a private company engaged, inter alia, in discounting of credit and non-bank credit card vouchers) entered into a cooperation agreement between them, pursuant to which, Gamma became an aggregator through CAL.

The Issuance Segment

The Company issues credit cards to its customers (credit card holders). The credit cards are used as a means of payment to merchants to purchase goods or services. Customers join the Company's credit card system by signing a credit card contract and receiving the credit card. Credit card holders make a commitment to repay the amounts owed arising from their use of the credit card in accordance with the terms of the commitment set forth in the aforesaid credit card contract. For the issuance and operating services of the card, the Company collects various tariff fees from its customers, and an interchange fee from the acquirer or the merchant. The aforesaid fees are under the supervision of the Banking Supervision Department and the Company may revise them concurrently with the disclosure and / or subject to the approval of the Banking Supervision Department, as applicable.

The credit cards in the Company may be characterized under two (2) different categories:

Bank cards – Cards issued to customers who maintain an account in the bank with which the issuer is connected in an arrangement to issue cards. A bank card permits the card holder a range of uses in the bank's automated services. It should be noted that most of the Company's activity in the credit card issuance sector is carried out by virtue of commitments and agreements of the Company with the Banks in the Arrangement.

Non-bank cards – Cards issued by the Company to customers of all the banks (including banks with which the Company has no arrangement whatsoever) by virtue of an authorization to debit an account on which the customer (the card holder) signs. The issuance of these cards has been carried out until now, mainly, through cooperation with customer clubs. The non-bank cards permit the card holders those uses which bank cards are permitted. It should be noted that in relation to non-bank cards, the responsibility for honoring the vouchers and debits which the customer undertakes vis-à-vis the merchant, and the responsibility in respect of all the uses of the card, as a rule, falls on the Company, and not on the bank in which the customer's account is maintained. In order to cope with the said responsibility and the risks arise therefrom, the Company operates, inter alia, credit scoring systems (systems for rating customer credit) for examining the financial solidity of the customers and examining their capacity to repay their liabilities. It should be further noted that the aforesaid responsibility falls on the Company in cases of any other damage incurred in connection with the use of the card, including due to loss, theft and/or use of the card after its cancelation by anyone who is accordingly not entitled. In this context, it should be noted that the aforesaid responsibility of the Company does not prevent it in appropriate cases from trying to recover the amounts of the damage incurred from the customer or merchant (as applicable).

Products and Services

The Company operates credit cards with the "American Express" brand, which are issued both as non-bank cards and bank cards (for domestic use and for international use, as applicable). The Company offers a range of cards (for example: Centurion and Platinum cards, etc.). In each of the abovementioned cards, the Company offers its customers, in addition to the use of the means of payment, added value offers, either in the framework of the Company's benefit plan or as part of the customer clubs.

Segmentation of Income from Products and Services

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

The main expenses associated with this segment are in respect of marketing, retention, advertising, and management of the customer clubs; various benefit programs; issuance, and delivery of cards and attachments; and production and delivery of debit statements, and attribution of the various operating expenses.

For details regarding the segmentation of income from credit-card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see Table 2 "Operational Data" in the section "Significant developments in income, expenses" in the Report of the Board of Directors, above.

Marketing and Distribution

The Company's marketing activity in the Issuance Segment is conducted on several levels: activity with the Banks in the Arrangement for the issuance of bank cards, marketing in connection with the non-bank cards, joint activity with customer clubs (with regard to the issuance of both non-bank cards and bank cards), and marketing and sales promotion, inter alia through conducting various marketing campaigns, including joint campaigns with leading entities in the various sectors, the operation of a sales service center (internal and external), direct mail, salespeople, the Company's websites, and more.

In addition, the Company operates designated Internet sites and applications, inter alia, for card holders, and pursuant thereto, customers are given information regarding products and services offered to them, information regarding the Company charges, promotional campaigns, benefits and the like, in an easy and accessible manner.

As part of upgrading communication with its cardholders and the range of benefits granted to them, the Company offers its customers a benefits plan which allows customers to receive benefits. The goal of this plan is to make the benefits granted to card holders more relevant, while building a community of customers with which regular communications can be maintained.

The Company strives to establish leadership in the digital arena and in the area of mobile payments. It should be noted that, in addition to the aforesaid, within the context of the Company's marketing and distribution activity, and in light of the its branding of the "American Express" card as a prestigious card, exclusive services are provided by the Company in accordance with the nature of the brand and the instructions of American Express, such as international concierge services for granting benefits and discounts to its customers. In addition, the Company is the only company managing in Israel a loyalty program for accumulating points, and pursuant to which points are accumulated to the cardholders in accordance with the provisions of the regulations of the plan which the customers may convert in exchange for the various benefits,

Among other things, the Company offers its customers in Israel a variety of recreation and leisure benefits, in accordance with the spirit of the brand and Amex guidelines. The Company manages two loyalty plans in Israel that accumulate points - a plan for Premium customers and a plan for all other customers. Within the framework of these plans, points are accumulated for cardholders in accordance with the regulations in the plans. In November 2016, the Company notified its customers (excluding Premium customers) that it will start giving validation to points (for three (3) years). Thus, points accumulated by the said customers and not yet utilized by December 31, 2016, will be exercisable only until December 31, 2019 (and after that date, points, as aforesaid, not utilized will be finally and permanently erased); points that will accumulate and are not exercised in 2017 will be exercisable until December 31, 2020 (and after that date such points, that are not exercised will be erased finally and permanently); and so on. The exercise of the benefits will be executed on a first-in-first-out (FIFO) basis - that is, previously accumulated points will be realized first. No expiry date has yet been set for the points accrued in the Premium customer plan.

To the best of the Company's knowledge and assessment, most customers choose to join a credit card arrangement with a credit card company based on a number of main parameters, including: engagement with a credit card company that has an arrangement with the bank where the customer's account is maintained; relevant value offers to customers, such as collaborations as part of customer clubs, various benefits and services granted incidentally to the issuance and use of the card; the credit card company's image and the brands of the credit cards issued by it; and the level of customer service.

The Company considers the marketing of the bank credit cards through the Banks in the Arrangement and non-bank credit cards through the customer clubs as significant marketing channels of the Company. At the same time, the Company is taking steps both to create additional new distribution channels. For details regarding arrangements with the Banks in the Arrangement and with customer clubs, see section "Strategic cooperation and significant agreements" in the Report of the Board of Directors.

The main objectives of the Company in the marketing activity in the area of card issuance are: (1) the recruitment of new customers and the expansion of the Company's activity in the context of new and designated population groups; (2) increasing loyalty, retention of customers and granting various benefits; (3) intensifying the use of credit cards (wallet share) in Israel, abroad and in online purchases; and (4) strengthening the Company's image and the brands it issues.

Profit and profitability – Issuance sector

The loss of the segment amounted NIS 5 million, compared with NIS 2 million in 2016, an increase of 150%%.

The rate of return of the loss to average capital amounted to a negative return of 1.6%, compared with 0.7% last year.

Development of income and expenses

Income of the segment amounted to NIS 232 million, compared with NIS 217 million in last year, an increase of 6.9%.

Income from commissions amounted to NIS 243 million, compared with NIS 225 million last year, an increase of 8.0%.

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

Other expenses amounted to an expense of NIS 11 million, compared with income of NIS 8 million last year, an increase of 37.5%, deriving mainly from exchange rate differences.

Expenses of the segment, before payments to banks amounted to NIS 208 million, compared with NIS 182 million last year, an increase of 14.3%

Expenses of the segment, including payments to banks, amounted to NIS 239 million, compared with NIS 220 million last year, an increase of 8.6%.

Expenses in respect of credit losses amounted to NIS 12 million, compared with NIS 10 million last year, an increase of 20%. The increase derives mainly from an increase in the balances of credit card receivables.

Operating expenses amounted to NIS 82 million, compared with NIS 79 million last year, an increase of 3.8%.

Selling and marketing expenses amounted to NIS 93 million, compared with NIS 73 million last year, an increase of 27.4%, deriving from a net increase in expenses in respect of benefits to credit card holders and commitments with customer clubs..

General and administrative expenses amounted to NIS 21 million, compared with NIS 20 million last year, an increase of 5.0%.

Payments to banks amounted to NIS 31 million, compared with NIS 38 million last year, a decrease of 18.4%.

The income to expenses ratio, before payments to banks, reached 89.7%, compared with 83.9% last year.

Loss for the segment before taxes amounted NIS 7 million, compared with a loss before taxes of NIS 3 million last year, an increase of 133.3%.

The provision for tax on the loss in the segment amounted to NIS 2 million, compared with NIS 1 million last year, an increase of 100%.

Customers – Cardholders

The credit cards issued by the Company service customers in various segments, mostly private customers, various population strata, ages and backgrounds (with the range of credit cards issued by the Company adapted to all the range of customers as aforesaid in accordance with the requirements of each population). As of the date of signing the report, there are no holders of credit cards (bank or non-bank), whose volume of transactions made with the Company's credit cards constitutes 10% of more of the total volume of transactions in the Company's credit cards in 2017.

The Acquiring Segment

The Company is party to acquiring agreements with merchants in a variety of sectors. As part of the acquiring service, the acquiring credit card company makes a commitment vis-à-vis merchants that, subject to compliance with the terms of the agreement between them, the debits incurred by holders of cards (acquired by the same company) acquirer when purchasing goods or services from the merchants will be settled by it. In consideration for the acquiring services, as aforesaid, the acquiring company collects from the merchant a fee called a "merchant fee".

Products and services

Further to the traditional acquiring services provided by the Company to merchants, the Company offers other services, such as: Acquiring services, such as Payware, an application for acquiring from the mobile in a secured manner, including a card reader connected to the mobile, which is intended for small businesses with a small number of daily transactions, and for seasonal or mobile businesses; Network payment - a component for payment by credit card that enables the honoring of a credit card on existing websites;

Added value services for merchants, such as: Data Direct – analysis of data on the merchant, permitting the receipt of full data in real time on the activity in credit cards acquired through the Company, and the ability to compare to similar businesses in its area of activity; a partnership in the sales promotional campaigns with merchants using various means; adjustment services – a service permitting the merchant real-time monitoring of the business's debit and credit activity by the credit companies and discounting companies.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants are allocated to the Acquiring Segment. The main income items in the Acquiring Segment are fees from merchants, net of interchange fees, and financial income (net) which are allocated to the segment. The main expenses associated with this segment are recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements and the attribution of various operating expenses. For details regarding the segmentation of income from credit-card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see ", see "Table 2: Operational Data," in the section "Significant developments in income and expenses" in the Report of the Board of Directors.

Marketing and Sales

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

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

According to periodic examinations conducted by the Company, it appears that merchants choose to join an acquiring arrangement with the Company based on the existence of a personal relationship with the merchant, the Company's ability to address the merchant's requirements and offer it a complete basket of services, including inter alia, financing services, loans and formulation of the all-inclusive service concept of the credit card company by the merchant, etc.

The Company's marketing ability in the area of acquiring takes into consideration the said parameters and accordingly, the Company invests great efforts in retaining existing merchants and attracting new merchants for the acquiring services offered by it. At the same time, the Company regularly monitors the characteristics of the merchants connected with it in acquiring agreements. For this purpose, it has invested in the establishment of data infrastructures and in the analysis of the data therein, in order to adapt for these merchants financial services which match their needs.

Profit and profitability – Acquiring sector

The net profit of the segment amounted to NIS 52 million, compared with NIS 49 million last year. An increase of 6.1%.

The rate of return of the net profit to average capital amounted to 80.5%, compared with a rate of return of 83.8% last year.

Development of income and expenses

The segment's income amounted to NIS 193 million, compared with NIS 184 million last year, an increase of 4.9%.

Income from fees amounted to NIS 185 million, compared with NIS 180 million last year, an increase of 2.8%.

Net interest income amounted to NIS 2 million, similar to 2016.

Other income amounted to NIS 6 million, compared with an income of NIS 2 million last year, an increase deriving mainly from exchange rate differences.

Expenses of the segment before payments to banks amounted to NIS 65 million, compared with NIS 62 million last year, an increase of 4.8%.

Expenses of the segment including payments to banks amounted to NIS 124 million, compared with NIS 116 million last year, an increase of 6.9%.

Expense in respect of credit losses amounted to less than NIS 0.5 million, similar to 2016.

Operating expenses amounted to NIS 37 million, compared with NIS 36 million last year, an increase of 2.8%.

Sales and marketing expenses amounted to NIS 11 million, compared with NIS 10 million last year, an increase of 10%.

General and administrative expenses amounted to NIS 17 million last year, compared with NIS 16 million last year, an increase of 6.3%.

Payments to banks amounted to NIS 59 million, compared with NIS 54 million last year, an increase of 9.3%.

The ratio of expenses to income in the segment before payments to banks reached 33.7%, similar to last year.

Profit before tax amounted to NIS 69 million, , compared with NIS 68 million last year, an increase of 1.5%.

The provision for taxes on profit in the segment amounted to NIS 17 million, compared with NIS 19 million last year a decrease of 10.5%.

Customers

The Company's customers in the Acquiring Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries. As at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2017.

For further details regarding the acquiring segment, including critical success factors, main barriers to entry and competition, see chapter "Description of the Company's business according to operating segments" in the Corporate Governance Report under the heading "Acquiring segment". For details regarding trends and regulatory changes which are expected to impact the Group's activity in the area, see section "Regulatory proceedings", above.

Review of Risks

General description of the risks and methods of risk management

Some of the information set forth in this chapter, although based on the processing of historical data, constitutes forward-looking information, as detailed in the chapter "General Review, Targets and Strategy ". The Company's activity is subject to financial risk, credit risk and other non-financial risks, such as regulatory risk and operational risk. Additional risks to which the Company is exposed are dealt with directly as a part of the business management.

a. General description of the risks

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

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

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

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

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

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

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

Liquidity risk: The risk to the Company's profits and stability, deriving from inability to supply its liquidity needs, the ability to finance growth in assets and meet its obligations as they become due, without encountering unusual losses.

Reputational risk: The risk of material damage to revenues or capital of the Company due to a negative image created for the Company among stakeholders and is liable to be created from a large number of factors, together or separately (for example, a consumer claim, a system collapse, behavior deviating from the social and generally accepted norms, etc.).

Detailed information on the risks according to the disclosure requirements of the Third Pillar, as well as additional information on the risks, may be found in the risks report that is publicized on the Company's website.

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

Detailed information regarding the risks according to the disclosure requirements of the Third Pillar and additional information on the risks may be found in the risk report that is publicized on the Company's website.

B. Risk appetite

Risk appetite is a high-level determination as to the risk that the corporation is willing to assume, considering risk/yield characteristics. It is usually perceived as forward looking measurement of acceptance of assuming the risk. The risk appetite expresses the level of the corporation's preparedness, as reflected in its decisions, to assume risks as part of its business activity. The appetite for risk expresses the Company's desire to avoid risks and relates to the maximum loss it is prepared to absorb from its entire activity for the purpose of achieving its goals.

Risk capacity is a more specific determination as to the level of change that the corporation is willing to perform as to its business objectives, usually considered as the aggregate risk that a corporation is willing to assume. Risk capacity expresses the maximum exposure to risks which the Company is able to bear. Risk capacity is reflected, practically, in levels of available capital at the Company's disposal, which is available for the absorption of losses resulting from the materialization of risks to react quickly and effectively, and thus reduce the loss incurred from the realization of the risks, as aforesaid.

Risk profile is the assessment of the aggregate risk inherent in the exposures and business activity of the company for a specific point in time, through use of various tools and means. The risk appetite is demarcated by the limits for risk capacity, as the risk appetite expresses the degree of the risk which the Company wishes to bear in order to fulfill its business and strategic goals, without detracting from its ability to bear risks, both in the normal course of business and under stress scenarios.

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

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

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

Risk management principles

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

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

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

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

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

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

The key principles for risk management are as follows:

- The Board of Directors supervises the work of the management in the area of risk management, subject to the provisions of the law.
- The management of the Company is responsible for implementing decisions of the Board of Directors in the area of risk management.
- Every business unit and/or operational unit is responsible for the management of the risks created as a part of its day-to-day activity, including its qualification to make decisions in relation to the assumption of risks (subject to exposure restrictions).
- The organizational structure of the risk management and the risk management processes will give appropriate expression to the Company's corporate governance principles, and will contribute, in the best way, to the existence of a chain of effective supervision over their activity, subject to the provisions of the law.
- The risk management will be proactive and will operate proactively to deal with the various material risks to which the Company is exposed and will not suffice with providing a retrospective response to developments and events.
- Decision-makers on the subject of risk management will operate with an overall vision of the Company's best interests and not with partial-functional vision.
- The risks to which the Company is exposed will be managed while maintaining a separation between the risk-taking lines of business and the independent risk management function under the responsibility of the Chief Risk Officer (including the Risk Management, Compliance and Prohibition of Money Laundering department) and Internal Audit.
- The Company will fulfill continuous processes for identification, assessment and supervision of quantifiable and non-quantifiable material risks to which it is exposed, in order to ensure at any time that the material risks which it faces are identified and managed.
- For each of the material risks to which the Company is exposed a senior office-holder is appointed, at the status of a management member, who bears accountability (total accountability that may not be delegated) in relation to risk.
- The chain of responsibility in relation to the risk management is built in a hierarchy, with each degree of management bearing responsibility for risks in its area of activity, such that aggregation of risk management in each area of management will be guaranteed, up to the member of management responsible for the risk.

- The concept of risk management supports the efficiency of the decision-making processes, and allows more educated decisions to be made by a wider business picture.
- The risk management concept encourages transparency in all matters related to authority, responsibility for assuming and managing risks in effective organizational internal communication, and in the flow of proper information to all factors involved in dealing with risks.
- The risk management process is dynamic and expected to develop over the long term according to the Company's varying needs, regulatory provisions, generally accepted practice in Israel and around the world and economic environmental conditions. Accordingly, it undergoes periodic examination, validation and refresher procedures in order to support the attainment of the Company's risk management concept.

Use of stress scenario tests

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

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

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

The main uses of stress tests are:

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

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

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principles of Credit Concentration Risk Management:

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

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

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

Determination of risk rating for customer according to statistical models:

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

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

The models may be divided as follows:

AS (Application Scoring) models - models for rating requests of new customers when underwriting for a new product according to segments of activity;

BS (Behavior Scoring) models – behavioral models of customers of the Company according to segments of activity;

SME (Small-Medium Enterprise) models – models to assess corporate customers' ability to continue operating;

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 models are regularly reviewed and the development of the risk ratings in the credit portfolio is monitored.

The models are developed and maintained and undergo periodical testing for quality and calibration by the Model Development Unit in the Credit and Financing Services Sub-Division, and validated by the Risk Management Department (the second circle of control). In addition, validation of the model code and validation of the model data are being performed in the Validation Unit in the data systems. The Company manually rates merchants with high credit. The manual rating is based mainly on the merchants' financial data.

Credit policy

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

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

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

Determination of hierarchy of authorities in the extension of credit

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

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

Problematic credit risk and non-performing assets

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

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

Table 5 - Problematic credit risk and nonperforming assets

NIS millions

	Balance as at December 31,2017	Balance as at December 31, 2016
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	3	3
Inferior credit risk	3	3
Credit risk under special supervisions	7	6
Total problematic credit risk	**13**	**12**
Of which: Unimpaired debts in arrears of 90 days or more		

2. Nonperforming assets (2)		
Impaired debts	3	3
Total nonperforming assets (2)	**3**	**3**

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

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

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

Table 6 – Movement in impaired (1) debt balances individually examined

NIS millions

	For year ended 31 December 2017	For year ended 31 December 2016
Balance of impaired debts as of beginning of period	**-***	**-***
Balance of debts classified as impaired during the period, net	**1**	**-***
Debts re-classified as non-impaired	-	-
Accounting write-offs, net	(-*)	(-*)
Balance of debts classified as impaired during the period, net (2)	(-*)	(-*)
Balance of impaired debts as of end of period	1	**-***

* Amount less than NIS 0.5 million.

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

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

Table 7 – Risk and credit metrics

In percent

		December 31 2017	December 31 2016
A.	Balance of impaired debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit card activity	0.11	0.12
B.	Balance of unimpaired debtors in respect of credit card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit card activity	-	-
C.	Problematic credit risk as a percentage of total credit risk	0.12	0.12
D.	Credit loss expenses as a percentage of the average balance of debtors in respect of credit card activity	0.48	0.42
E.	Net write-off in respect of debts in respect of credit card activity as a percentage of the average balance of debtors in respect of credit card activity	0.36	0.30
F.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of debtors in respect of credit card activity	0.69	0.65
G.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors individually examined in respect of credit-card activity	-*	-*
H.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity with the addition of the balance of debtors in respect of credit card activity which is in arrears for 90 days or more.	-*	-*
I.	Net write-offs for debtors in respect of credit card activity as a percentage of the allowance for credit losses for debtors in respect of credit card activity	50.00	43.75

* Greater than 100%.

Credit quality

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

Credit risk in respect of exposures to borrower groups

In June 2015, the Banking Supervision Department publicized an amendment to Proper Conduct of Banking Management Directive No. 313, regarding "Restrictions on the Indebtedness of a Borrower and of a Group of Borrowers". The update is further to previous actions of the Banking Supervision Department intended to reduce concentration of credit portfolios in the local banking system, and against the backdrop of the Basel Committee on large exposures. Among other matters, definition of capital was narrowed by Tier 1 capital, and the limitation on liability of group of borrowers to a banking corporation was changed to 15% instead of 25%. The amendments to the Directive became effective on 1 January 2016, except as regards definition of capital, in which the supplement will be reduced gradually until 31 December 2018.

Pursuant to Proper Conduct of Banking Management Directive No. 313, regarding "Restrictions on the Indebtedness of a Borrower and of a Group of Borrowers", as of December 31, 2017, there is no group of borrowers which exceeds 15% of the Company's capital (as defined in Regulation no. 313).

Credit exposure to foreign financial institutions and foreign countries

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

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

Market and liquidity risk

The structure and organization of the market and liquidity risk management function

The Market and Liquidity Risks Management Department in the Company is based on an integrative layout for management of the exposures, composed of the following functions:

Market and Liquidity Risks Manager (VP Finance and Administration) and Chief Risks Officer.

The Chief Risks Officer is responsible for preparation of market and liquidity risks management policy, and the Market and Liquidity Risks Manager is responsible for its implementation and assimilation, including:

- Responsibility for financial exposures in the Company, subject to limitations approved by the Board of Directors.
- Monitoring and control procedures for matters related to management of exposures.
- Monthly reporting to the Board of Directors on market and liquidity risks.
- Management of foreign currency risks, including decision on hedging of long-term foreign currency exposures.
- Management of assets and liabilities.

- Routine measurement and control of the Company's market and liquidity risks metrics.
- Preparation of interest risks report.
- Analysis of results and preparation of findings for presentation at the management and Board of Directors.

Chief Risks Officer

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

In this respect, he is responsible for supervising the implementation of the policy and control and management processes of the Company's market and liquidity risks and formulation of proper policy.

Market risk

Market risk is the risk of a loss in balance sheet and off-balance sheet positions arising from a change in the fair value of a financial instrument due to a change in the market conditions, such as: changes in prices, rates, indices and margins and other parameters in the markets.

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

The Company’s market risk management policy is based on generally accepted practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") regarding market risk management, and Proper Conduct of Banking Business Directive No. 339, "Market and Interest Rate Risk", and Proper Conduct of Banking Business No. 333 "Interest Risk Management", adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in May 2017. The policy includes limits on exposures, aimed at reducing the damage that may be caused by changes in the various markets and interest rates, the CPI, foreign exchange rates, and shares. The Board of Directors of the Company updates these limits from time to time.

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

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

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

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

Details of the various risks are as follows:

a. Linkage base risk

The exposure to loss due to the effect of changes in the price bases in the various markets on the difference between the value of assets and value of liabilities in every sector, including effect on off-balance sheet items, that may occur as a result of the effect of changes in currency exchange rates and in rates of the consumer price index.

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

b. Interest-rate exposure

Exposure to damage to the capital of the Company as a result of changes in interest rates in the various markets. The risk derives from exposure to future changes in interest rates and their possible effect on the value of assets and liabilities of the Group according to the economic value approach, and the effect on profits according to the profits method.

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

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

c. Exposure to the value of securities

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

d. Derivative financial instruments

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

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

Interest exposure management

Exposure is monitored through examination of scenarios on the impact of changes in interest.

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

Foreign currency exposure management

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

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 reduce the net position at the end of each day, to immaterial exposure deriving from differences in timing between the transaction date and the settlement date in foreign-currency transactions. The Company monitors these differences.

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

Table 8 - Fair value of financial instruments of the Company, excluding non-monetary items

December 31, 2017 - In NIS millions

	Israeli currency Unlinked	Israeli currency CPI-linked	Foreign currency** USD	Foreign currency** Other	Total
Financial assets	3,008	13	80	9	3,110
Financial liabilities	2,620	13	62	5	2,700
Net fair value of financial instruments	**388**	**(-*)**	**18**	**4**	**410**

December 31, 2016 - In NIS millions

	Israeli currency Unlinked	Israeli currency CPI-linked	Foreign currency** USD	Foreign currency** Other	Total
Financial assets	2,887	12	75	6	2,980
Financial liabilities	2,518	12	68	2	2,600
Net fair value of financial instruments	**369**	**(-*)**	**7**	**4**	**380**

Table 9 - Effect of hypothetical changes in interest rates on the net fair value of financial instruments of the Company, excluding non-monetary items

December 31, 2017

	Net fair value of financial instruments after the effect of changes in interest rates** Israeli currency Unlinked In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Israeli currency CPI-linked In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Foreign currency*** USD In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Foreign currency*** Other In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Total In NIS millions	Change in fair value Total In NIS millions	Change in fair value Total In percent
Immediate parallel increase of 1%	389	(-*)	18	4	411	1	0.2
Immediate parallel increase of 0.1%	388	(-*)	18	4	410	-*	-
Immediate parallel decrease of 1%	387	(-*)	18	4	409	(1)	(0.2)

December 31, 2016

	Net fair value of financial instruments after the effect of changes in interest rates** Israeli currency Unlinked In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Israeli currency CPI-linked In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Foreign currency*** USD In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Foreign currency*** Other In NIS millions	Net fair value of financial instruments after the effect of changes in interest rates** Total In NIS millions	Change in fair value Total In NIS millions	Change in fair value Total In percent
Immediate parallel increase of 1%	370	(-*)	7	4	381	1	0.3
Immediate parallel increase of 0.1%	369	(-*)	7	4	380	-*	-
Immediate parallel decrease of 1%	368	(-*)	7	4	379	(1)	(0.3)

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

Table 10 – Exposure of the Company to changes in interest rates as of December 31, 2017

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2) %	Effective average duration (3) years
Unlinked Israeli currency										
Financial assets	2,065	460	409	71	-*	-	3	3,008	1.24%	0.13
Financial liabilities	1,518	525	442	110	15	-	10	2,620	1.29%	0.21
Net financial instruments										
Exposure to changes in interest rates in the segment	547	(65)	(33)	(39)	(15)	-	(7)	388	-	-
Accumulated exposure in the segment	547	482	449	410	395	395	388	-	-	-
Linked Israeli currency										
Financial assets	3	4	6	-*	-	-	-	13	(0.02%)	0.26
Total fair value	3	4	6	-*	-	-	-	13	(0.02%)	0.24
Net financial instruments										
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	(-*)	-	-	-	(-*)		
Accumulated exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	-	-	-

* Amount lower than NIS 0.5 million.

Table 10 – Exposure of the Company to changes in interest rates as of December 31, 2017 (contd.)

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2) %	Effective average duration (3) Years
Foreign currency										
Financial assets	83	5	1	-	-	-	-	89	1.45%	0.03
Financial liabilities	58	6	1	-	-	2	-	67	2.15%	0.22
Net financial instruments										
Exposure to changes in interest rates in the segment	25	(1)	(-*)	-	-	(2)	-	22	-	-
Accumulated exposure in the segment	25	24	24	24	24	22	22	-	-	-
Overall exposure to interest rate changes										
Financial assets	2,151	469	416	71	-	-	3	3,110	1.23%	0.13
Financial liabilities	1,579	535	449	110	15	2	10	2,700	1.31%	0.21
Net financial instruments										
Exposure to changes in interest rates in the segment	572	(66)	(33)	(39)	(15)	(2)	(7)	410	-	-
Accumulated exposure in the segment	572	506	473	434	419	417	410	-	-	-

General notes:

(1) This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 22A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 22A to the financial statements.

(2) Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 22A to the financial statements.

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

Table 10 – Exposure of the Company to changes in interest rates as of December 31, 2016

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2) %	Effective average duration (3) Years
Unlinked Israeli currency										
Financial assets	1,971	451	402	65	-*	-	(2)	2,887	1.22%	0.13
Financial liabilities	1,441	515	440	99	15	-	8	2,518	1.36%	0.21
Net financial instruments										
Exposure to changes in interest rates in the segment	530	(64)	(38)	(34)	(15)	-	(10)	369	-	-
Accumulated exposure in the segment	530	466	428	394	379	379	369	-	-	-
Linked Israeli currency										
Financial assets	2	4	6	-*	-	-	-	12	0.37%	0.27
Total fair value	2	4	6	-*	-	-	-	12	0.37%	0.25
Net financial instruments										
Exposure to changes in interest rates in the segment	(-*)	(-*)	(-*)	(-*)	-	-	-	(-*)	-	-
Accumulated exposure in the segment	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	(-*)	-	-	-

* Amount lower than NIS 0.5 million.

Table 10 – Exposure of the Company to changes in interest rates as of December 31, 2016 (contd.)

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2) %	Effective average duration (3) Years
Foreign currency										
Financial assets	77	3	1	-	-	-	-	81	0.75%	0.04
Financial liabilities	64	4	1	-	-	1	-	70	2.01%	0.19
Financial liabilities										
Total fair value										
Net financial instruments										
Exposure to changes in interest rates in the segment	13	(1)	-*	-	-	(1)	-	11	-	-
Accumulated exposure in the segment	13	12	12	12	12	11	11	-	-	-
Overall exposure to interest rate changes										
Financial assets	2,050	458	409	65	-*	-	(2)	2,980	1.21%	0.13
Financial liabilities	1,507	523	447	99	15	1	8	2,600	1.37%	0.21
Net financial instruments										
Exposure to changes in interest rates in the segment	543	(65)	(38)	(34)	(15)	(1)	(10)	380	-	-
Accumulated exposure in the segment	543	478	440	406	391	390	380	-	-	-

General notes:

(1) This table presents data by period for the present value of future cash flows of each financial instrument, when capitalized at the interest rates discounted to the fair value included in respect of the financial instrument in Note 22A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 22A to the financial statements.

(2) Internal rate of return is the interest rate used in discounting the cash flows expected from a financial instrument to the fair value included in respect thereof in Note 22A to the financial statements.

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

Liquidity risk

Liquidity risk is risk to the Company's profits and stability, deriving from inability to satisfy its liquidity needs, the ability to finance growth in assets and repay its obligations as they become due, without encountering extraordinary losses.

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

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

The Company implements a comprehensive liquidity risk management policy, which was approved by the Board of Directors in May 2017. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") and Proper Conduct of Banking Business Directive No. 342 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

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

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

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

The Board of Directors once a year determines the risk capacity in light of the management's recommendations, expressed through establishing risk exposure restrictions and the financing strategy. The risk capacity is determined in accordance with the Company strategic plans, business policy and the state of the markets.

The Company finances its day-to-day operations through its shareholders' equity, credit from banks and cash flows from operating activities. In addition, the Company uses a committed credit line from the parent company.

In addition, the Company exercises regular monitoring of the mix of the sources of finance and set limits designed to ensure a fair dispersal of the sources of finance.

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

For detailed information on liquidity risk according to the disclosure requirements of the Third Pillar and additional information regarding the risks, see the report on risks, which is publicized on the Company's website.

Operating Risk

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

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

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

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

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

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

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

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

Other risks

Data security risks and cyber events

Data security is defined as the overall actions, means and control employed and implemented in data systems, in order to protect them from harm to availability and survivability, from undesirable exposure, from malicious or unintentional change of the data and from harm to the integrity and reliability of the data.

The overall purpose of data security at the Company is to maintain the confidentiality, integrity, availability and reliability of the data, from intentional or unintentional harm by the Company's current and/or past employee or by external entities.

The Company manages information regarding its customers, information that constitutes a primary asset upon which the Company's businesses are based. This information must be protected from risks, protection that is also compatible with the requirements of the law and recognition of the privacy of the Company's customers. The Company's data security policy applies to the Company

Data security at the Company is routinely updated according to technological developments and the level of security and control over access to systems is adjusted according to the changes in the level of risks deriving from technological changes.

Cyber risk is the potential for damage deriving from occurrence of a cyber-event, considering the level of its probability and severity of its implications. A cyber event is an event during which a computer system and/or computer-embedded system and infrastructures are attacked by or on behalf of rivals (external or internal to the banking corporation), which might cause realization of cyber risk. It is noted that this definition also includes an attempt to perform such attack, even if no damage is actually caused.

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

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

Recently, there has been growth in the exposure of financial institutions in Israel and abroad to cyber threats, characterized, inter alia, by growing sophistication of attacks, the intensity of the potential damage, difficulty to identify attacks and abilities of rivals. Since Israel, particularly the financial sector, are targets for attack by various rivals, the banking institutions in Israel are even more exposed to cyber threats. Based on recognition of the importance of protecting the privacy of the Company's customers and as warranted by the requirements of law and Proper Conduct of Banking Management Directives Nos. 357 and 361, the Company is investing resources and inputs in order to allow for effective management of protection of information and computer infrastructures for cyber threats, as part of the risk management department and work framework for business continuity at the Company.

Regulatory risk

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

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

The process of identifying regulatory risk includes two main aspects:

A periodic process to identify risks – based on mapping the relevant outlined regulations and monitoring changes in relation to the reasonableness of the materialization of the risk. A process of identifying risks arising from the possible implications of expected regulations when launching new products or activities.

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

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

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

Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

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

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

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

Reputational risk

Reputational risk is the risk of a material impairment to the Company's income or capital as a result of a perception a negative image created for the Company among stakeholders. The perception of a negative image can be created from a large number of factors, together and individually, (for example: a consumer claim, a systems collapse, behavior exceeding social and generally accepted norms, etc.). Reputational risk is the risk inherent in all areas of the Company's activity in the areas of credit card issuance, in the acquiring, credit and services and other products that the Company offers.

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

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

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

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

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

Strategic and competition risk

Strategic risk is the risk of impairment to the Company's income and capital as a result of erroneous business decisions, the improper implementation of business decisions and the execution of non-compliance of the work program to changes in the business environment. Strategic risk is influenced by both external and internal risk factors. The external risk factors include, inter alia, the business/competitive environment in which the Company, which is characterized by increasingly intense competition, both on the part of the main entities operating in the sector and by new entities expected to commence operating in the areas of activity in which the Company is engaged, including as a result of regulatory directives that facilitate/encourage the entry of new players. Due to the nature of the activity and services provided in the sector, the Company's ability to distinguish itself significantly from its competitors and to cope with this competition is limited. Such external factors also include material suppliers with whom the Company is connected, with whom the termination of the contract in an unplanned manner is likely to harm the Company's ability to realize its strategy and to harm its business results.

The internal risk factors include factors within the organization which may result in the Company not complying with its business plan.

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

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

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

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

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

Table 11 – Discussion of risk factors

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

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

Accounting policy and critical estimates, controls and procedures

Accounting policy and critical estimates

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

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

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

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

Provision for gift offers (Points program) for credit-card holders

The Company has two benefit plans through points, a plan for premium cards and a plan for other types of cards. In November 2016, the Company announced a change in the regulations of the points plan for cards that were not premium cards. The change is the restriction of the validity of points to three years. Points not used by the end of such period will be finally and absolutely revoked and may no longer be used. Thus, points that have been accumulated by the said customers and not yet utilized by December 31, 2016 will be exercisable only until December 31, 2019 (and after that date, the aforesaid points which have not been utilized will be finally and permanently deleted). Points that will be accumulated and not exercised in 2017 will be exercisable until December 31, 2020 (and after this date, points as aforesaid not exercised will be finally and permanently deleted); and so on.

Allowance for credit losses

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

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

Contingent liabilities

The Management of the Company includes sufficient provisions in the financial statements, to the extent necessary, to cover possible damages arising from all legal claims, based on legal opinions of the Company's Legal Department, and sometimes also from external legal counsel. These assessments by legal advisors are based on the best of their judgment, taking into consideration the stage reached by the proceedings.

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

Employee rights

Part of the allowances due to the Company's liabilities in connection with employee-employer relations is based, inter alia, on actuarial calculation. This liability is due for severance pay due to termination of employee-employer relations, pension liabilities for payments to employees that retired before the statutory retirement age, liability for compensation due to unrealized sick days, and liabilities due to other benefits at the termination of, and after, employment.

The Company did not enclose to the financial statements the actuary assessments upon which it had relied, for the following reasons:

- As part of the separation of the Company from Bank Hapoalim, the liability in respect of the bank's employees on loan includes amounts corresponding to the termination of employment of bank employees on loan to Isracard, each employee in accordance with the specific agreement with him. Part of the liability is in accordance with an actuarial opinion and part, according to actual retirement costs. For further details, see also Note 16 I., below.

- The amounts determined according to the opinion of the actuary of Isracard (the Isracard Group consists of the Company and, in addition, Isracard Ltd.) are not material according to the definitions for purposes of enclosing valuation opinions.

Disclosure regarding controls and procedures

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

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

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

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

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

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

Evaluation of controls and procedures regarding disclosure

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

Internal controls over financial reporting

During the fourth quarter ended on December 31, 2017, there was no change in the Company’s internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company’s internal controls over financial reporting.

Eyal Deshe	**Dr. Ron Weksler**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2018

Certification of the Chief Executive Officer

I, Dr. Ron Weksler, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2017 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

(1) As defined in the Public Reporting Directives, “Report of the Board of Directors and Management.” (Chapter 620)

Dr. Ron Weksler

Chief Executive Officer

Tel Aviv, February 25, 2018.

Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "**Company**") for 2017 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

(1) As defined in the Public Reporting Directives, "Report of the Board of Directors and Management." (Chapter 620)

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 25, 2018.

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

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

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

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2017, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as at December 31, 2017, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2017 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 91. 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, 2017.

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

Tel Aviv, February 25, 2018.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2017

Table of Contents

Somekh Chaikin

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

We have audited the internal control over financial reporting of Poalim Express Ltd. (hereinafter: “the Company”) as at December 31, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: “COSO”). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, 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, 2017, based on criteria established in the Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by the directives and guidelines of the Supervisor of Banks, the financial statements of the Company as at December 31, 2017 and 2016, and for each of the years in the three-year period ended on December 31, 2017. Our report dated February 25, 2018, expressed an unqualified opinion on the aforesaid financial statements and drew attention to that stated in Note 18.B.2. on regulatory initiatives and in Note 18.C.6 regarding petitions to approve a certain claim as a class actions against the Company.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Tel Aviv, February 25, 2018

Somekh Chaikin

ZIV HAFT

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

We have audited the accompanying balance sheets of Poalim Express Ltd. (hereinafter: "the Company") as at December 31, 2017 and 2016, and the statements of profit and loss, statements of comprehensive income, statements of changes in shareholders' equity, and statements of cash flows of the Company, for each of the three years in the period ended on December 31, 2017. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Company as at December 31, 2017 and 2016, 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, 2017, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to the matters in Note 18.B.2. on regulatory initiatives and in Note 18.C.6 regarding petitions to approve a certain claim as a class actions against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States regarding the audit 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, 2017, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2018, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel Aviv, February 25, 2018

Statements of Profit and Loss

In NIS millions

	Note	For the year ended December 31 2017	For the year ended December 31 2016	For the year ended December 31 2015
Income				
From credit-card transactions	3	428	405	368
Net interest income	4	2	2	1
Other income (expenses)		(5)	(6)	(2)
Total income		425	401	367
Expenses				
In respect of credit losses	10B	12	10	6
Operating expenses	5	119	115	120
Sales and marketing expenses	6	104	83	76
General and administrative expenses	7	38	36	30
Payments to banks	18F	90	92	80
Total expenses		363	336	312
Profit before taxes		62	65	55
Provision for taxes on the profit	8	15	18	15
Net income		**47**	**47**	**40**
Basic net profit per common share (in NIS)		**338**	**340**	**285**
Number of common shares used in calculation		139,326	139,326	139,326

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

Tel Aviv, February 25, 2018

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

Statements of Comprehensive Income

In NIS millions

	For the year ended December 31 2017	For the year ended December 31 2016	For the year ended December 31 2015
Net income	**47**	**47**	**40**
Other comprehensive income (loss) before taxes:			
Adjustments for liabilities in respect of employee benefits	*-	(*-)	(*-)
Other comprehensive income before taxes	*-	(*-)	(*-)
Effect of related tax	(*-)	*-	*-
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	*-	(*-)	(*-)
Comprehensive income attributed to shareholders of the Company	**47**	**47**	**40**

* Amount less than NIS 0.5 million.

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

Balance Sheets

In NIS millions

	Note	December 31 2017	December 31 2016
Assets			
Cash		16	22
Debtors in respect of credit-card activity	10	2,623	2,443
Allowance for credit losses		(19)	(16)
Debtors in respect of credit-card activity, net		2,604	2,427
Computers and equipment	11	2	2
Other assets	12	512	551
Total assets		**3,134**	**3,002**
Liabilities			
Credit from banking corporations	13	3	1
Creditors in respect of credit-card activity	14	2,692	2,601
Other liabilities	15, 18	23	21
Total liabilities		**2,718**	**2,623**
Contingent liabilities and special agreements	18		
Equity	17	416	379
Total liabilities and capital		**3,134**	**3,002**

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

Statements of Changes in Equity

In NIS millions

	Paid up share capital	Capital reserves Premium on shares	Capital reserves From controlling shareholder	Total share capital and capital reserves	Cumulative other comprehensive loss	Retained earnings	Total capital
Balance as at Dec. 31, 2014	**--***	**35**	**--***	**35**	**-**	**257**	**292**
Net income for the year	-	-	-	-	-	40	40
Benefits received from controlling shareholder	-	-	--*	-*	-	-	-*
Other comprehensive loss, net after effect of tax(1)	**-**	**-**	**-**	**-**	(-*)	**-**	**(-*)**
Balance as at Dec. 31, 2015	**--***	**35**	**--***	**35**	(-*)	**297**	**332**
Net income for the year	-	-	-	-	-	47	47
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Other comprehensive loss, net after effect of tax(1)	-	-	-	-	(-*)	-	(-*)
Balance as at Dec. 31, 2016	**--***	**35**	**-***	**35**	(-*)	**344**	**379**
Net income for the year	-	-	-	-	-	47	47
Dividend paid to shareholders	-	-	-	-	-	(10)	(10)
Benefits received from controlling shareholder	-	-	*-	*-	-	-	*-
Other comprehensive loss, net after effect of tax(1)	-	-	-	-	*-	-	*-
Balance as at Dec. 31, 2017	***-**	**35**	***-**	**35**	**(*-)**	**381**	**416**

* Amount less than NIS 0.5 million.

(1) See Note 9 below.

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

Statements of Cash Flows

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash flows from operating activities			
Net income for the year	47	47	40
Adjustments:			
Depreciation of computers and equipment	1	*-	3
Expenses in respect of credit losses	12	10	6
Deferred taxes, net	(2)	(1)	(*-)
Benefit from a transaction with a controlling party	*-	*-	*-
Adjustments for exchange rate differences	3	2	(*-)
Changes in current assets			
Change in credit to cardholders and merchants, net	2	(25)	17
Change in other debtors in respect of credit-card activity, net	(190)	(112)	(373)
Change in other assets, net	41	(1)	(100)
Changes in current liabilities			
Change in short-term credit from banking corporations, net	1	(3)	2
Change in creditors in respect of credit-card activity, net	91	91	402
Change in other liabilities, net	2	2	4
Net cash from operating activities	8	10	1

* Amount less than NIS 0.5 million.

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

Statements of Cash Flows (cont.)

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash flows from investing activities			
Acquisition of computers and equipment	(1)	(1)	(1)
Net cash from investing activity	(1)	(1)	(1)
Cash flows from financing activities			
Dividend paid to shareholders	(10)	-	-
Net cash from financing activity	(10)	-	-
Increase (decrease) in cash	(3)	9	*-
Balance of cash at beginning of year	22	15	15
Effect of changes in exchange rates on cash balances	(3)	(2)	*-
Balance of cash at end of year	16	22	15
Interest and taxes paid and/or received			
Interest received	2	2	2
Interest paid	*-	*-	*-
Taxes paid on income	18	17	16
Taxes received on income	1	*-	1

* Amount less than NIS 0.5 million.

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

Note 1 – General

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

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

The financial statements of the Company are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the Public Reporting Directives and guidelines of the Banking Supervision Department.

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

The annual financial statements were approved for publication by the Board of Directors of the Company on February 25, 2018

Note 2 – Significant Accounting Policies

A. Definitions

In these financial statements:

- **Generally accepted accounting principles (GAAP) for banks in the United States** – Accounting principles, which American banks traded in the United States, are required to implement, according to the hierarchy established in ASC 105-10) of the Codification (FAS 168) and in accordance with the instructions and positions of the US Securities and Exchange Commission and the banking supervision authorities in the US.

- **International Financial Reporting Standards** (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.

Note 2 – Significant Accounting Policies (cont.)

A. Definitions (Cont.)

1. The Company – Poalim Express Ltd.

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

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

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

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

6. USD – United States dollar.

7. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements of the Institute of Certified Public Accountants in Israel.

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

9. Cost – Cost in reported amounts.

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

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

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

13. Recorded balance of debt – defined as the balance of the debt, after deducting accounting write-offs, but before deducting an allowance for credit losses in respect of that debt.

14. Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

B. 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 Banking Supervision Department. In most of the subjects, these directives are based on GAAP for US banks. In the other subjects, which are less material, the directives are based on IFRS and Israeli GAAP. In cases where the IFRS allows a number of alternatives, or does not include a specific reference to a specific situation, these directives include specific instructions for implementation, which are based mainly of GAAP for US banks.

Note 2 – Significant Accounting Policies (cont.)

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

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. The Shekel is the currency that represents the main economic environment in which the Company operates.

3. Measurement Base

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

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

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

4. Use of Estimates

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

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

5. Changes in estimates

In 2016 and 2017, the Company updated employee rights liabilities on an actuarial basis, in respect of the outline of an efficiency drive, following a letter from the Banking Supervision Department regarding "Increasing the efficiency of the banking system in Israel" and in relation to the employee turnover rate. See also Note 16 below for additional details.

Note 2 – Significant Accounting Policies (cont.)

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

In the periods commencing January 1, 2017, the Company implements the new accounting standards and directives set out below. The following is a description of the nature of the changes made in the accounting policies in these financial statements. The implementation of these directives did not have a material effect on the financial statements.

1. Reporting by banking corporations and credit card companies in accordance with generally accepted accounting principles in the United States on the subject of taxes on income

On October 22, 2015, a circular was published on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States on the subject of taxes on income." Pursuant to the circular, there is a requirement to implement generally accepted accounting principles in the United States on the subject of taxes on income and inter alia, the presentation, measurement and disclosure principles in accordance with Topic 740 in the Codification regarding "Taxes on income". and Topic 830-740 in the Codification on "Topics in foreign currency – taxes on income".

On October 13, 2016, a circular was published on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States". The circular includes, inter alia, certain clarifications regarding reporting on taxes according to the US rules.

The main amendments to the Public Reporting Directives are as follows:

- Transitional provisions have been updated so that temporary differences in respect of prior periods will continue to be handled according to the directives that applied up to December 31, 2016.
- It was clarified that interest income and expenses in respect of taxes on income will be classified as "taxes on income"
- It was clarified that fines to the tax authorities would be classified as "taxes on income".
- The requirement has been removed to present information in a Note on the basis of historical nominal data for tax purposes.
- It was clarified that a law would be considered to have been "legislated" only when it was published in the Official Gazette ("Reshumot").

The new directives were implemented from January 1, 2017 and thereafter.

Note 2 – Significant Accounting Policies (cont.)

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

(2) Reporting of banking corporations in Israel in accordance with generally accepted accounting principles in the United States on the subjects of: foreign currency matters; accounting policies, changes in accounting estimates and errors; and post balance sheet date events

On March 21, 2016, a circular was published on the subject of reporting by banking corporations and credit card companies in Israel, pursuant to generally accepted accounting principles in the United States. The circular updates the Public Reporting Directives and adopts generally accepted accounting standards in the United States on the following subjects:

- Generally accepted accounting principles in banks in the United States on Topic 830 in the Codification regarding "Foreign currency matters".

- Generally accepted accounting principles in banks in the United States relating to accounting policy, changes in accounting estimates and errors, including Topic 250 in the Codification regarding "Accounting changes and error corrections"

- Generally accepted accounting principles in banks in the United States relating to post balance sheet date events in accordance with Topic 855-10 in the Codification regarding "Subsequent events".

The provisions, which have been determined pursuant to the circular are effective as from January 1, 2017 and thereafter. It should be emphasized that when implementing the directives in Topic 830 of the Codification regarding "foreign currency", in reporting periods up to January 1, 2019, banks and credit card companies are not to include the exchange differences in respect of bonds that are available for sale as part of the adjustments of the fair value of those bonds, but rather they are to continue to treat them as required under the Public Reporting Directives before the adoption of that topic.

3. New standard update on the subject of share-based payment

In March 2016, the Financial Accounting Standards Board (hereinafter: The **"FASB**") published Standard Update number 2016 – 09 to the Codification (hereinafter: the "**Amendment**"), which constitutes an amendment to the provisions of ASC 718 on the subject of "Share-based payment". The aim of the amendment is to simplify various aspects of the accounting treatment of share-based payments. This change is to be implemented prospectively. In addition, in accordance with the amendment, surplus tax benefits will be recognized on the date they arise, in contrast to the current US GAAP provisions according to which recognition of these tax benefits is deferred until the date that they reduce the taxable income. The provisions will apply to US public entities beginning with the annual and interim financial statements for periods beginning after December 15, 2016.

Note 2 – Significant Accounting Policies (cont.)

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Exchange-rate differences arising from translation into the functional currency are recognized in profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

Set out below are details regarding representative exchange rates and the CPI (2016 base = 100), and the rates of change therein:

	December 31, 2017	December 31, 2016	December 31, 2015
Consumer price index (in points)	100.4	100.0	100.2
United States dollar exchange rate (in NIS per 1 USD)	3.467	3.845	3.902
Euro (in NIS per 1 Euro)	4.153	4.044	4.247

;	Percent change in the year ended December 31, 2017	Percent change in the year ended December 31, 2016	Percent change in the year ended December 31, 2015
Consumer price index	0.4	(0.2)	(1.0)
USD exchange rate	(9.8)	(1.5)	0.3
Euro rate	2.7	(4.8)	(10.1)

2. Basis for Recognition of Revenue and Expenses

(1) Income from clearing fees, net of fee refunds, is recognized in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.

Note 2 – Significant Accounting Policies (cont.)

D. Accounting Policy Implemented in the Preparation of the Financial Statements (Cont.)

2. Basis for Recognition of Revenue and Expenses (Cont.)

(2) The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, “Reporting Income on a Gross or Net Basis,” and accordingly presents income from clearing fees on a net basis in the statement of profit and loss. Regarding the standard to be implemented from January 1, 2018, see also section E.1. – "Recognition of income from contracts with customers" below.

(3) Income from service fees and foreign currency transaction fees collected from cardholders are shown on a gross basis in accordance with their relevance, are recognized in the statement of profit and loss on a cumulative basis.

(4) Interest income and expenses are recorded on an accrual basis, with the exception of interest in respect of problem debts classified as impaired recognized as interest income based on actual collection.

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

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

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

In addition, from time to time the Banking Supervision Department revises the Public Reporting Directives and the FAQ file, which provide guidance regarding the manner of the implementation of directives on the subject of impaired debts and the allowance for credit losses, with the objective of integrating the directives applying to banks in the United States on this issue, including directives issued by the supervisory agencies in the United States within them.

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Note 2 – Significant Accounting Policies (cont.)

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

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

Identification and Classification of Impaired Debts

The Company classifies all of its problematic debts and items of off-balance-sheet credit into the categories: under special supervision, substandard, or impaired.

Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. Decisions regarding debt classification are made based on factors including the state of arrears of the debt and evaluation of the borrower's financial condition and repayment capability. Credit risk under special supervision includes credit risk with potential weaknesses that deserve special management attention. If not addressed, the result of these potential weaknesses may be a deterioration in the prospects for repayment of the credit or the status of the company as a creditor at a future date. Substandard credit risk is inadequately protected by the established present value. In any case, debt is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. For that purpose, the Company monitors the days of arrears, with reference to the contractual repayment terms. A debt is in arrears when the principal or interest in respect of the debt has not been paid, after the scheduled payment date. Once the debt has been classified as impaired, it is treated as a debt not accruing interest income (such a debt is called “a non-performing debt”). In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired.

Allowance for Credit Losses

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

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

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

The individual allowance for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards by the debtor.

Note 2 – Significant Accounting Policies (cont.)

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

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

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually for large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is calculated in accordance with the rules set forth in ASC 450 (FAS 5), the accounting treatment of contingencies, and pursuant to directives issued by the Supervisor of Banks, based on the formula for the calculation of the collective allowance specified in the order issued by the Banking Supervision Department, regarding the collective allowance for credit losses during the years in the period commencing January 1, 2011 and ending on the reporting date. The formula is based on historical rates of loss and differentiates between problematic and non-problematic credit, and between individual persons and merchants, international organizations, and credit-card companies.

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

Off-balance Sheet Credit

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

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

Troubled Debt Restructuring

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

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

Note 2 – Significant Accounting Policies (cont.)

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

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

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

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

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

Charge-Offs

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

Note 2 – Significant Accounting Policies (cont.)

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

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

Revenue Recognition

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

4. Establishing the Fair Value of Financial Instruments

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

Fair value is defined as the price that would be obtained from the sale of an asset, or the price that would be paid to extinguish a liability, in an ordinary transaction between market participants, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. ASC 820-10 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

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

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

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

Note 2 – Significant Accounting Policies (cont.)

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

6. Offsetting Assets and Liabilities

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

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

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

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

The Company has implemented the measurement and disclosure rules set forth in US accounting standard ASC 860-10 (FAS 140), Transfers and Servicing of Financial Assets for Extinguishment of Liabilities, as amended by FAS 166, Transfers and Servicing of Financial Assets ASC 860-10, for purposes of the transfers of financial assets and the extinguishment of liabilities. The Company removes liabilities to merchants upon early settlement of debts to the merchant and release of the obligation to the merchant.

According to these rules, the transfer of a financial asset shall be accounted for as a sale if, and only if, all the following conditions are met: (1) the transferred financial asset is isolated from the transferring entity, even in the situation of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or asset-backed financing activity and which the entity is precluded from pledging or replacing the financial assets it has received, any third party holding beneficiary rights) may pledge or replace the assets (or the beneficiary rights) that it received, and there is no condition that also restricts the recipient (or a third party holding the beneficiary rights) from exercising its right to pledge or replace and also gives the transferor a greater benefit than a trivial benefit; (3) The transferor does not keep effective control over the financial assets or beneficiary rights relating to such transferred assets.

Note 2 – Significant Accounting Policies (cont.)

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

8. Fixed Assets (Computers and Equipment)

Recognition and Measurement

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

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment.

In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item “Buildings and Equipment.” See Section 9 below regarding the accounting treatment of software costs.

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

Depreciation

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

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset.

Note 2 – Significant Accounting Policies (cont.)

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

8. Fixed Assets (Cont.)

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

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

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

9. Intangible Assets (included in Fixed Assets)

Software Costs

In accordance with Codification ASC 350-40, software acquired by the Company is measured at cost, with the deduction of amortisation and accumulated losses from impairment. In addition, the Company implements the directives of the Supervisor of Banks regarding capitalization of software costs.

The capitalization of internal-use software development costs only commences where: the first stage of a project has been completed; management having the appropriate authority has approved and committed to financing the software development project directly or indirectly and it is expected that the development will be completed and that future economic benefits will be derived from the software.

When software is developed or obtained for internal use, the following costs are capitalized: direct material and services costs that have been consumed and salary costs for employees who are directly connected to the development activities or the implementation of the software. Other costs in respect of development activities and research costs are allocated to profit and loss when they arise. In subsequent periods, capitalized development costs are measured at cost, with the deduction of amortization and accrued losses from impairment.

Subsequent Costs

Costs relating to upgrades and improvements of internal use software are only capitalized if it is expected that the expenses that have been incurred will lead to additional functionalities. Other subsequent costs are recognized as an expense as incurred.

Amortization

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

Note 2 – Significant Accounting Policies (cont.)

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

9. Intangible Assets (Cont.)

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

Intangible assets, which have been created from a software project, are amortized when the software is available for use, in other words, when those components have reached the location and the state required in order for them to be able to operate in the manner intended by management. In this connection, software is available for use when all of the significant checks have been completed, independent of the time required to upload the software for actual use.

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

10. Impairment of Non-Financial Assets

Timing of Examination of Impairment

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

Measurement of Recoverable Amount

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

Recognition of Impairment Loss

Losses from impairment are recognized when the book value of the asset exceeds the recoverable amount and are charged to profit and loss.

Note 2 – Significant Accounting Policies (cont.)

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

10. Impairment of Non-Financial Assets

Cancellation of an impairment loss

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

Impairment of In-House Software Development Costs

Tests for impairment of in-house software development costs shall be performed, inter alia, when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

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

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

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

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

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

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

The Company has two Points Programs, a program for premium cardholders and a program in respect of other types of credit cards. In November 2016, the Company announced the changing of the rules for the Points Program for non-premium cardholders. The change is that the points will be valid for three years, Points that are not used by the end of their period of validity, as aforesaid, will be deleted ultimately and absolutely, and it will not be possible to make further use of them. Points accumulated by the said customers and not yet utilized up to December 31, 2016, will be exercisable until December 31, 2019 only (and after that date, such points that are not exercised will be erased in a final and absolute manner); points that will accumulate and will not be exercised in 2017 will be exercisable until December 31, 2020 (and after that date, such points that are not exercised will be erased in a final and absolute manner); and so on.

Note 2 – Significant Accounting Policies (cont.)

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

12. Employee Rights

The Company is obligated by law, agreements and practice, for payments of retirement benefits to employees, which include payments under defined benefit plans in respect of pensions (such as pension payments, severance pay and retirement), payments under other plans after retirement (such as holiday gifts and other welfare and health contributions paid to pensioners or on their behalf).

In addition, in accordance with the directives of the Banking Supervision Department, a company that expects a group of employees to be paid benefits beyond the contractual terms takes the expected turnover rate of employees (including employees expected to retire under voluntary-retirement plans or upon receiving other preferred terms) and the benefits that these employees are expected to receive upon leaving into account.

The Company's obligations for payment of compensation, pension and other benefits other than in accordance with Section 14 of the Severance Pay Law, are accounted for in defined benefit plans calculated on an actuarial basis taking into account probabilities based on past experience. The discount rate is calculated based on the government bond yield in Israel plus the average margin on corporate bonds rated AA (International) or above at the reporting date. For practical reasons, it was determined that the interval will be determined by the difference between yield rates to maturity, by maturity period, of corporate bonds rated AA or above in the United States, and yield rates to maturity, for the same maturity period, of US government bonds, at the reporting date. The mortality rate is based on the current directives of the Commissioner of Capital Markets, Insurance and Savings as outlined in Circular 2013-1-2 (New Tables for Insurance Companies). The rate of future salary increases is estimated by Management based on past experience and the collective labor agreement.

The service cost, interest cost, yield on plan assets, amortization of the net actuarial gain or loss. amortization of the cost or credit for past service and profit and loss resulting from extinguishment or reduction, are reflected in profit and loss in respect of these benefits.

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

Past service costs or credits are amortized as a component of the net service cost for the period on a straight-line over the average service lives of the employees who are expected to receive benefits under the program.

Costs relating to the updating of the obligation due to a non-recurring efficiency program, which is measured on an actuarial basis, constitute an actuarial loss and are reflected under other comprehensive income.

Short-term employee benefits (such as salaries, vacation, and bonuses) are measured on an undiscounted basis and are expensed at the time of the related service.

Note 2 – Significant Accounting Policies (cont.)

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

13. Share-Based Payment Transactions

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

For share-based payment transactions classified directly through equity, the value of the benefit is measured on the grant date with reference to the fair value of the instruments granted. The value of the benefit is recognized in profit or loss as a salary expense against a corresponding increase in equity. For the purpose of recognizing and allocating the expense over the service periods of employees. The Company takes into account service conditions and performance conditions (which are not market conditions), so that the recognition is based on the number of instruments for which the conditions of service and performance conditions are expected to be fulfilled. A performance goal which can be achieved after the service period, is treated as a condition of execution.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is re-measured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense in profit and loss. Transactions involving a liability that will be settled by issuing a variable number of the Bank's shares on the basis of a fixed monetary value are classified as a liability.

14. Contingent Liabilities

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

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

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

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

Note 2 – Significant Accounting Policies (cont.)

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

14. Contingent Liabilities

Legal claims regarding which the Banking Supervision Department has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse. For further details, see Note 18.C on “Legal Proceedings and Contingencies”.

15. Expenses for Taxes on Income

The Company's financial statements include current taxes and deferred taxes.
The Company allocates tax expenses or tax benefits on income between ordinary activities, other comprehensive income and items directly carried to shareholders' equity.

Current Taxes

Current tax is the amount of tax paid or expected to be paid (or refunded) on the income for the current year, as determined under the tax laws enacted on the taxable income. Current tax expenses include the changes in tax payments referring to previous years.

Deferred Taxes

Deferred tax liabilities and deferred tax assets represent the future effects on taxes on income arising from temporary differences and losses carried forward at the end of the period.
The Company recognizes deferred tax liabilities in respect of all taxable temporary differences.
The Company recognizes deferred tax assets in respect of all temporary differences that can be deducted, and losses carried forward and at the same time recognizes a separate valuation allowance for the same amount included in the asset that is more likely than not to be realized. The Company reduces the deferred tax assets in the amount of any tax benefits that are not expected to be realized based on the available evidence - both the positive evidence supporting the recognition of a deferred tax asset and the negative evidence supporting the provision for a deferred tax asset, to determine whether a net deferred tax asset can be recognized.
The available evidence that the Company took into account:
The deferred tax liability or deferred tax asset are measured using the legally enacted tax rates that are expected to apply to sufficient taxable income in periods where it is expected that the deferred tax liability will be settled, or the deferred tax asset will be realized.
The Company classifies interest income and expenses in respect of taxes on income in the item "Taxes on income". In addition, the Company classifies fines to the tax authorities in the item "Taxes on income".

Deferred taxes - offsetting assets and liabilities

The Company will offset all deferred tax liabilities and assets, as well as all the related valuation allowance provision for deferred tax asset), for a particular taxpaying component and within the limits of a particular taxation jurisdiction.

Note 2 – Significant Accounting Policies (cont.)

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

16. 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.

17. Statement of Cash Flows

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

18. Reporting on Operating Segments

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

19. Related Party Disclosures

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

20. Transactions with Controlling interests

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

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

Note 2 – Significant Accounting Policies (cont.)

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

20. Transactions with Controlling interests (Cont.)

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 amortised cost.

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

1. Recognition of income from contracts with customers

On January 11, 2015, a circular was published on the subject of the adoption of updated accounting principles on the subject of "Revenues from contracts with customers". The circular updates the Public Reporting Directives in light of the publication of ASU 2014-09 which adopts a new standard on the subject of the recognition of revenues in the US accounting principles. The standard determines that revenue is to be recognized in the amount that is expected to be received in consideration for the transfer of the goods or the provision of the services to the customer.
Pursuant to a circular from the Banking Supervision Department on the subject of the transition provisions for the year 2016, there is a requirement to implement the revisions to the Public Reporting Directives according to the circular on adoption of updated accounting principles on “Income from Contracts with Customers” from January 1, 2018. This follows the updating of the ASU 2015-14 standard in the United States, which deferred the timing of the initial implementation.
The Standard contains a single model that applies to contracts with customers that includes five stages in order to determine the timing and amount of revenue recognition:
A. Identifying the contract with the customer.
B. Identify individual performance obligations in the contract.
C. Determining the transaction price.
D. Assigning the transaction price to separate execution obligations.
E. Recognition of income with fulfillment of performance obligations.
The Standard also prescribes that income will be recognized in the amount expected to be received in return for the transfer of the goods or provision of services to the customer.
On initial application, a choice can be made between the alternative of applying retrospective restatement of comparative figures and the alternative of a prospective application while recording the accumulated effect on equity at the time of initial application.

Note 2 – Significant Accounting Policies (cont.)

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

1. Recognition of income from contracts with customers (Cont.)

The new Standard does not apply, inter alia, on financial instruments and contractual rights or commitments covered by Codification Topic 310. In addition, it is clarified in directives issued by the Bank of Israel that as a rule, the provisions of the new standard will not apply to the accounting treatment of interest income and expenses and financing income other than interest. In the Company's opinion, implementation of the circular is not expected to have a material effect on the financial statements.

2. Reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States

On October 13, 2016, a circular was published by the Banking Supervision Department on the subject of reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States.

The circular updates the Public Reporting Requirements and adopts generally accepted accounting principles in the United States on the following issues:

- Discontinued activities in accordance with Topic 205-20 in the Codification regarding "Discontinued activities";
- Fixed assets, in accordance with Topic 360 in the Codification regarding "Fixed assets";
- Earnings per share in accordance with Topic 260 in the Codification regarding "Earnings per share";
- Statement of cash flows in accordance with Topic 230-10 in the Codification regarding "Statement of cash flows";
- Reporting for interim periods in accordance with Topic 270 in the Codification regarding "Interim reporting";
- Measurement and disclosure of guarantees in accordance with Topic 460 in the Codification regarding "Guarantees".

The directives that have been determined in accordance with the circular are effective as from January 1, 2018.

At the time of the initial implementation, a banking corporation is required to act in accordance with the transition provisions that have been set on those issues in the US standards, mutatis mutandis, including the retrospective correction of comparative figures if this is required in accordance with the US standards on those issues. In the Company's opinion, implementation of the circular is not expected to have a material effect on the financial statements.

Note 2 – Significant Accounting Policies (cont.)

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

3. Circular concerning Amendment No. 2017-07 to the FASB's Codification on improving the presentation of expenses in respect of pension and other benefits after termination of employment

On December 11, 2017, the Banking Supervision Department issued a circular concerning Amendment No. 2017-07 to the Codification on improving the presentation of expenses in respect of pension and other benefits after termination of employment.
The amendment clarifies that the cost components of the benefit included in salary expenses included in the statement of profit and loss should be separated so that only the service cost will remain in salary expenses, while the rest of the costs should be presented in non-operating expenses (other expenses). Moreover, it was clarified that only the service cost can be capitalized, in cases where capitalization of salary expenses is possible, and the other cost components of the benefit cannot be capitalized.
It is required to implement the provisions prescribed in accordance with the circular from January 1, 2018 onwards. At the time of initial application, the transitional provisions established in the United States must be followed, mutatis mutandis.

Note 3 – Income from Credit-Card Transactions

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Income from merchants:			
Merchant fees	358	338	319
Others	*-	1	*-
Total gross income from merchants	358	339	319
Less fees to other issuers	(28)	(26)	(25)
Total net income from merchants	**330**	**313**	**294**
Income in respect of credit-card holders:			
Issuer fees	27	24	19
Service fees	44	41	37
Fees from transactions abroad	27	27	18
Total income in respect of credit-card holders	98	92	74
Total income from credit-card transactions	**428**	**405**	**368**

Note 4 – Net Interest Income

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
A. Interest income:			
From credit to individuals	*-	*-	*-
From commercial credit	2	2	1
From deposits with banks	*-	*-	*-
From other assets	*-	*-	*-
Total in respect of assets	**2**	**2**	**1**
B. Interest expenses:			
To banking corporations			
On notes	(*-)	(*-)	(*-)
Total in respect of liabilities	**(*-)**	**(*-)**	**(*-)**
Total net interest income	**2**	**2**	**1**

* Amount less than NIS 0.5 million.

Note 5 – Operating Expenses

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Wages and related expenses	25	23	27
Data processing and computer maintenance	12	13	15
Automatic Bank Services (ABS)	3	2	2
Royalties to international organization	50	50	44
Amortization and depreciation	1	*-	3
Communications	1	1	1
Production and delivery	16	17	17
Damages from abuse of credit cards	1	1	1
Rent and building maintenance	7	6	6
Others	3	2	4
Total operating expenses	**119**	**115**	**120**

* Amount less than NIS 0.5 million.

Note 6 – Sales and Marketing Expenses

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Wages and related expenses	15	12	12
Advertising	5	4	3
Customer retention and recruitment	10	10	11
Gift campaigns for credit-card holders	55	42	38
Club management fees	16	13	10
Others	3	2	2
Total sales and marketing expenses	**104**	**83**	**76**

Note 7 – General and Administrative Expenses

In NIS millions

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Wages and related expenses	4	4	3
Professional services	3	**3	**2
Insurance	*-	*-	*-
Payments to Isracard(1)	29	27	23
Others	2	**2	**2
Total general and administrative expenses	**38**	**36**	**30**

* Amount less than NIS 0.5 million.

** Reclassified.

(1) See Note 18.F below.

Note 8 – Provision for Taxes on the Profit

In NIS millions

1. Composition:

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Current taxes for the accounting year	17	19	15
Deferred taxes for the accounting year	(2)	(1)	(*-)
Current taxes for previous years	(*-)	*-	(*-)
Provision for taxes on income	**15**	**18**	**15**

* Amount less than NIS 0.5 million.

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

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Tax rate applicable to the Company in Israel	24.0%	25.0%	26.5%
Tax amount based on statutory rate	15	16	15
Change in balance of deferred taxes due to changes in tax rates	*-	2	-
Provision for taxes on income	**15**	**18**	**15**

* Amount less than NIS 0.5 million.

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

In NIS millions

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

   b. For a tax assessment under dispute, see Note 18.D below.

4. **Changes in deferred taxes:**

	Balance at December 31, 2016 NIS millions	Changes charged to profit and loss NIS millions	Effect of the change in the tax rate charged to profit and loss NIS millions	Changes charged to other comprehensive income NIS millions	Balance at December 31, 2017 NIS millions	Average rate of tax 2017 In percent
Deferred tax assets						
From allowance for credit losses	8	2	-	-	10	23.0%
From provision for vacations, bonuses	*-	(*-)	(*-)	-	*-	23.0%
From surplus of liability for employee benefits over plan assets	1	*-	-	(*-)	1	23.0%
Balance of deferred tax assets, gross	**9**	**2**	**(*-)**	**(*-)**	**11**	

* Amount less than NIS 0.5 million.

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

In NIS millions

4. Changes in deferred taxes (Cont.)

	Balance at December 31, 2015 NIS millions	Changes charged to profit and loss NIS millions	Effect of the change in the tax rate charged to profit and loss NIS millions	Changes charged to other comprehensive income NIS millions	Balance at December 31, 2016 NIS millions	Average rate of tax 2016 In percent
Deferred tax assets						
From allowance for credit losses	8	2	(2)	-	8	23.0%
From provision for vacations, bonuses	*-	*-	(*-)	-	*-	24.0%
From surplus of liability for employee benefits over plan assets	*-	1	(*-)	*-	1	23.0%
Balance of deferred tax assets, gross	**8**	**3**	**(2)**	***-**	**9**	

* Amount less than NIS 0.5 million.

5. Changes in tax rates

Companies Tax

Rates of corporation tax relevant to the Bank for 2015-2017 are as follows:

2015: 26.5%

2016: 25%

2017: 24%

On January 4, 2016, the Knesset passed the Amendment to the Income Tax Ordinance Law (No. 216) - 2016, which determined, inter alia, the lowering of the rate of Companies Tax from January 1, 2016 and thereafter by 1.5%, such that it would stand at 25%.

Furthermore, on December 22, 2016, the Knesset Plenum passed the Economic Efficiency Law (Amendments to legislation of the achievement of the budget targets for the 2017 and 2018 budget years) - 2016, which determined, inter alia, the lowering of the rate of Companies Tax from a rate of 25% to 23% in two rounds. The first round, to a rate of 24% as from January 2017 and the second round, to a rate of 23% as from January 2018 and thereafter. As a result of the lowering of the tax rate to 23%, the deferred tax balances as of December 31, 2017 have been calculated in accordance with the new tax rate as determined in the Amendment to the Income Tax Ordinance Law, in accordance with the tax rate that is expected to apply at the time of the reversal.

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

5. Changes in tax rates (Cont.)

The impact of the changes that are detailed above on the financial statements as of December 31, 2016, was expressed in a reduction of NIS 2 million in deferred tax asset balances, against which deferred tax expenses have been recognized.

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

Note 9 – Cumulative Other Comprehensive Loss

In NIS millions

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

	Adjustments for employee benefits	Other comprehensive loss attributed to shareholders of the Company
Balance as at January 1, 2015	**(*-)**	**(*-)**
Net change during the period	(*-)	(*-)
Balance as at January 1, 2016	**(*-)**	**(*-)**
Net change during the period	(*-)	(*-)
Balance as at January 1, 2017	**(*-)**	**(*-)**
Net change during the period	*-	*-
Balance as at December 31, 2017	**(*-)**	**(*-)**

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

	2017 Before tax	2017 Tax effect	2017 After tax	2016 Before tax	2016 Tax effect	2016 After tax	2015 Before tax	2015 Tax effect	2015 After tax
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company									
Employee benefits									
Net actuarial gain (loss) in the year	*-	(*-)	*-	(*-)	*-	(*-)	(*-)	*-	(*-)
Net (gains) losses reclassified to the statement of profit and loss	(*-)	*-	(*-)	*-	(*-)	*-	*-	(*-)	*-
Total net change during the period	***-**	**(*-)**	***-**	**(*-)**	***-**	**(*-)**	**(*-)**	***-**	**(*-)**

* Amount less than NIS 0.5 million.

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

A. Debtors in Respect of Credit-Card Activity

In NIS millions

	December 31, 2017 Average annual interest rate On daily balance %	December 31, 2017 Average annual interest rate On transactions in the last month %	December 31 2017 In NIS millions	December 31 2016 In NIS millions
Credit risk not under bank guarantee				
Individuals (1)			392	375
Of which: debtors in respect of credit cards (2)	-	-	392	375
Of which: credit	-	-	-	-
Commercial			188	157
Of which: debtors in respect of credit cards (2)	-	-	151	118
Of which: credit (2) (3)	2.4	2.6	37	39
Total credit risk not under bank guarantee			**580**	**532**
Credit risk under bank and other guarantee				
Debtors in respect of credit cards	-	-	2,016	1,887
International credit-card organization			21	20
Income receivable			3	3
Others			3	1
Total debtors in respect of credit-card activity			**2,623**	**2,443**

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

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

(3) Of which: credit to merchants in the amount of NIS 37 million (December 31, 2016 – NIS 39 million). This amount includes advance payments to merchants in the amount of NIS 33 million (December 31, 2016 – NIS 36 million).

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

In NIS millions

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

Allowance for credit losses

1. Change in balance of allowance for credit losses

For the year ended December 31, 2017	Credit risk not under bank guarantee Individuals Debtors in respect of credit cards	Credit risk not under bank guarantee Individuals Credit	Credit risk not under bank guarantee Commercial Debtors in respect of credit cards	Credit risk not under bank guarantee Commercial Credit[3]	Credit risk under bank and other guarantee [2]	Total
Balance of allowance for credit losses as at December 31, 2016	14	-	4	*-	1	19
Expenses (income) in respect of credit losses	8	-	2	1	1	12
Charge-offs	(9)	-	(3)	(*-)	-	(12)
Recovery of debts charged off in previous years	2	-	1	(4) -	-	3
Net charge-offs	**(7)**	**-**	**(2)**	**(*-)**	**-**	**(9)**
Balance of allowance for credit losses as at December 31, 2017**	**15**	**-**	**4**	**1**	**2**	**22**
**** Of which:**						
In respect of off-balance-sheet credit instruments	2	-	1	*-	*-	3
In respect of bank deposits	-	-	-	-	*-	*-
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

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

In NIS millions

B. Debts(1) and Off-Balance Sheet Credit Instruments (Cont.)

Allowance for credit losses (cont.)

1. Change in balance of allowance for credit losses

For the year ended December 31, 2016	Credit risk not under bank guarantee Individuals Debtors in respect of credit cards	Credit risk not under bank guarantee Individuals Credit	Credit risk not under bank guarantee Commercial Debtors in respect of credit cards	Credit risk not under bank guarantee Commercial Credit(3)	Credit risk under bank and other guarantee (2)	Total
Balance of allowance for credit losses as at December 31, 2015	11	-	4	-*	1	16
Expenses (income) in respect of credit losses	8	-	2	(-*)	-*	10
Charge-offs	(6)	-	(2)	-*	-	(8)
Recovery of debts charged off in previous years	1	-	-*	-(4)	-	1
Net charge-offs	**(5)**	**-**	**(2)**	**(*)**	**-**	**(7)**
Balance of allowance for credit losses as at December 31, 2016**	**14**	**-**	**4**	**-***	**1**	**19**
**** Of which:**						
In respect of off-balance-sheet credit instruments	2	-	1	-*	-*	3
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

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

In NIS millions

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

Allowance for credit losses (cont.)

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

For the year ended December 31, 2015	Credit risk not under bank guarantee Individuals Debtors in respect of credit cards	Credit risk not under bank guarantee Individuals Credit	Credit risk not under bank guarantee Commercial Debtors in respect of credit cards	Credit risk not under bank guarantee Commercial Credit[3]	Credit risk under bank and other guarantee [2]	Total
Balance of allowance for credit losses as at December 31, 2014	11	-	2	-*	1	14
Expenses (income) in respect of credit losses	4	-	2	(-*)	-*	6
Charge-offs	(5)	-	(-*)	(-*)	-	(5)
Recovery of debts charged off in previous years	1	-	-*	-[4]	-	1
Net charge-offs	**(4)**	**-**	**(-*)**	**(-*)**	**-**	**(4)**
Balance of allowance for credit losses as at December 31, 2015**	**11**	**-**	**4**	**-***	**1**	**16**
**** Of which:**						
In respect of off-balance-sheet credit instruments	2	-	1	-*	-*	3
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

See notes below.

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

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

Allowance for credit losses (cont.)

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

* Amount less than NIS 0.5 million.
(1) Debtors in respect of credit card activity, bank deposits and other debts.
(2) Debtors in respect of credit cards under bank guarantee, bank deposits, international credit-card organization, income receivable, and other debtors.
(3) Income-bearing credit – this credit includes credit not to credit card holders and other transactions.
(4) Collection from merchants is performed by offsetting new sales vouchers captured by the system.

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

In NIS millions

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

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

For the year ended December 31, 2017	Credit risk not under bank guarantee Individuals Debtors in respect of credit cards	Credit risk not under bank guarantee Individuals Credit	Credit risk not under bank guarantee Commercial Debtors in respect of credit cards	Credit risk not under bank guarantee Commercial Credit[3]	Credit risk under bank and other guarantee [2]	Total
Recorded debt balance of debts						
Examined on an individual basis	*-	-	69	17	-	86
Examined on a collective basis	392	-	82	20	2,554	3,048
Total debts	**392**	**-**	**151**	**37**	**2,554**	**3,134**
Allowance for credit losses in respect of debts						
Examined on an individual basis	*-	-	1	*-	-	1
Examined on a collective basis	13	-	2	1	2	18
Total allowance for credit losses	**13**	**-**	**3**	**1**	**2**	**19**

See notes below.

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

In NIS millions

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

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

For the year ended December 31, 2016	Credit risk not under bank guarantee Individuals Debtors in respect of credit cards	Credit risk not under bank guarantee Individuals Credit	Credit risk not under bank guarantee Commercial Debtors in respect of credit cards	Credit risk not under bank guarantee Commercial Credit[(3)]	Credit risk under bank and other guarantee [(2)]	Total
Recorded debt balance of debts						
Examined on an individual basis	-*	-	48	18	-	66
Examined on a collective basis	375	-	70	21	2,468	2,934
Total debts	**375**	**-**	**118**	**39**	**2,468**	**3,000**
Allowance for credit losses in respect of debts						
Examined on an individual basis	-*	-	1	-*	-	1
Examined on a collective basis	12	-	2	-*	1	15
Total allowance for credit losses	**12**	**-**	**3**	**-***	**1**	**16**

See notes below.

* Amount less than NIS 0.5 million.

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

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

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

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

In NIS millions

C. Debts(1)

1. Credit quality and arrears

December 31, 2017

	Non-problematic	Problematic(2) Unimpaired	Problematic(2) Impaired (3)	Total	Unimpaired debts – additional information In arrears of 90 days or more	Unimpaired debts – additional information In arrears of 30 to 89 days (4)
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	383	7	2	392	-	2
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	147	3	1	151	-	1
Credit	37	*-	*-	37	-	*-
Debts under bank and other guarantee (5)	2,554	-	-	2,554	-	-
Total	(6) **3,121**	**10**	**3**	**3,134**	**-**	**3**

See notes below.

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

In NIS millions

C. Debts(1)

1. Credit quality and arrears (Cont.)

December 31, 2016

	Non-problematic	Problematic(2) Unimpaired	Problematic(2) Impaired (3)	Total	Unimpaired debts – additional information In arrears of 90 days or more	Unimpaired debts – additional information In arrears of 30 to 89 days (4)
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	366	7	2	375	-	2
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	115	2	1	118	-	1
Credit	39	-*	-*	39	-	-*
Debts under bank and other guarantee (5)	**2,468**	**-**	**-**	**2,468**	**-**	**-**
Total	**2,988(6)**	**9**	**3**	**3,000**	**-**	**3**

* Amount less than NIS 0.5 million.

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

(2) Impaired, substandard and special mention debts.

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

(4) Debts in arrears of 30 to 89 days have been classified as unimpaired problematic debts not accruing interest income.

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

(6) Of which: credit risk in the amount of NIS 3,117 million (December 31, 2016 – NIS 2,984 million) whose credit rating at the date of the report agrees with the credit rating for new credit performance pursuant to the policy of the Company.

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

C. Debts[1]

1. Credit quality and arrears (Cont.)

Credit Quality

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

In NIS millions

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

December 31, 2017

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

See notes below.

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

In NIS millions

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

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

December 31, 2016

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

* Amount less than NIS 0.5 million.

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

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

In NIS millions

C. Debts[1] (cont.)

2. Additional information regarding impaired debts (cont.)

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

	For the year ended December 31 2017	For the year ended December 31 2016	For the year ended December 31 2015
Debts not under bank guarantee			
Private individuals			
Debtors in respect of credit cards	*-	*-	1
Credit	-	-	-
Commercial			
Debtors in respect of credit cards	*-	*-	*-
Credit	*-	*-	*-
Debts under bank and other guarantee (4)	**-**	**-**	**-**
Total	***-**	***-**	**1**

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

In NIS millions

C. Debts[1] (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring [3]

	For the year ended December 31 2017	For the year ended December 31 2016
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	-*	-*
Credit	-	-
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**
Total	*****	*****

* Amount less than NIS 0.5 million.

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

(2) The recorded debt balance represents the restructured balance at the date of restructuring rather than at the balance sheet date.

(3) Not accruing interest income.

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

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

In NIS millions

C. Debts[1] (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

For the year ended December 31, 2017

	Debt restructured during the reporting period (2) Number of contracts	Debt restructured during the reporting period (2) Recorded debt balance before restructuring	Debt restructured during the reporting period (2) Recorded debt balance after restructuring	Failed debt restructuring** Number of contracts	Failed debt restructuring** Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	236	1	1	70	*-
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	46	1	1	10	*-
Credit	-	-	-	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**282**	**2**	**2**	**80**	***-**

See notes below

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

In NIS millions

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

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

For the year ended December 31, 2016

	Debt restructured during the reporting period (2) Number of contracts	Debt restructured during the reporting period (2) Recorded debt balance before restructuring	Debt restructured during the reporting period (2) Recorded debt balance after restructuring	Failed debt restructuring** Number of contracts	Failed debt restructuring** Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	315	2	2	71	-*
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	47	-*	-*	10	-*
Credit	-	-	-	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**362**	**2**	**2**	**81**	**-***

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) The recorded debt balance represents the restructured balance at the date of restructuring rather than at the balance sheet date.
(3) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

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

In NIS millions

C. Debts(1) (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

For the year ended December 31, 2015

	Debt restructured during the reporting period (2) Number of contracts	Debt restructured during the reporting period (2) Recorded debt balance before restructuring	Debt restructured during the reporting period (2) Recorded debt balance after restructuring	Failed debt restructuring** Number of contracts	Failed debt restructuring** Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	297	2	2	49	-*
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	43	-*	-*	11	-*
Credit	-	-	-	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**340**	**2**	**2**	**60**	**-***

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) The recorded debt balance represents the restructured balance at the date of restructuring rather than at the balance sheet date.
(3) Holders of credit cards under bank guarantees, deposits with banks, international credit-card organization, income receivable, and other debts.

Note 10A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

December 31, 2017 - In NIS millions

	Number of borrowers(2)	Debtors in respect of credit-card activity Total	Debtors in respect of credit-card activity Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	331,480	399	380	111
Borrower balances over 5 and up to 10	128,551	455	398	439
Borrower balances over 10 and up to 15	67,463	337	251	497
Borrower balances over 15 and up to 20	29,062	228	162	281
Borrower balances over 20 and up to 30	26,115	276	186	358
Borrower balances over 30 and up to 40	10,821	166	109	214
Borrower balances over 40 and up to 80	8,043	254	197	163
Borrower balances over 80 and up to 150	1,909	141	120	59
Borrower balances over 150 and up to 300	716	107	93	38
Borrower balances over 300 and up to 600	266	74	56	35
Borrower balances over 600 and up to 1,200	73	39	26	19
Borrower balances over 1,200 and up to 2,000	20	23	8	7
Borrower balances over 2,000 and up to 4,000	22	38	13	25
Borrower balances over 4,000 and up to 8,000	11	20	4	37
Borrower balances over 8,000 and up to 20,000	7	39	13	49
Borrower balances over 20,000 and up to 40,000	1	21	-	-
Total	604,560	2,617	2,016	2,332
Income receivable and others	-	6	-	-
Total	**604,560**	**2,623**	**2,016**	**2,332**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities at the responsibility of banks).

Note 10A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (Cont.)

December 31, 2016 - In NIS millions

	Number of borrowers(2)	Debtors in respect of credit-card activity Total	Debtors in respect of credit-card activity Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	334,712	401	382	105
Borrower balances over 5 and up to 10	125,975	452	396	436
Borrower balances over 10 and up to 15	67,010	331	247	497
Borrower balances over 15 and up to 20	27,501	219	155	263
Borrower balances over 20 and up to 30	25,288	261	176	352
Borrower balances over 30 and up to 40	9,809	150	98	193
Borrower balances over 40 and up to 80	7,312	218	165	160
Borrower balances over 80 and up to 150	1,577	110	91	54
Borrower balances over 150 and up to 300	566	79	66	35
Borrower balances over 300 and up to 600	208	57	43	26
Borrower balances over 600 and up to 1,200	70	38	26	16
Borrower balances over 1,200 and up to 2,000	22	24	9	8
Borrower balances over 2,000 and up to 4,000	23	26	10	36
Borrower balances over 4,000 and up to 8,000	12	48	10	32
Borrower balances over 8,000 and up to 20,000	5	16	13	38
Borrower balances over 20,000 and up to 40,000	1	9	-	11
Total	600,091	2,439	1,887	2,262
Income receivable and others	-	4	-	-
Total	**600,091**	**2,443**	**1,887**	**2,262**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities at the responsibility of banks).

Note 11 – Computers and Equipment

In NIS millions

	Computers and equipment	Furniture and office equipment	Software costs(1)	Other	Total
Cost:					
As at December 31, 2016	1	1	9	4	15
Additions	-	-	1	-	1
As at December 31, 2017	1	1	10	4	16
Accrued depreciation:					
As at December 31, 2016	1	1	7	4	13
Additions	-	-	1	-	1
As at December 31, 2017	1	1	8	4	14
Depreciated balance as at December 31, 2017	-	*-	2	-	2
Depreciated balance as at December 31, 2016	*-	*-	2	-	2
Weighted average depreciation rate in % in 2017	25.0	9.9	25.0	-	-
Weighted average depreciation rate in % in 2016	25.0	9.9	25.0	-	-

* Amount less than NIS 0.5 million.

(1) Includes capitalized software costs in connection with software development costs for in-house use, in an amount of NIS 7 million at December 31, 2017(at December 31, 2016 – NIS 6 million).

Note 12 – Other Assets

In NIS millions

	December 31 2017	December 31 2016
Deferred taxes receivable, net (see Note 8)	11	9
Surplus of advance income-tax payments over current provisions	*-	*-
Other debtors and debit balances:		
Prepaid expenses	5	6
Related companies*	495	535
Others	1	1
Total other debtors and debit balances	501	542
Total other assets	**512**	**551**

* This balance is unlinked, and bears interest at the weighted rate of the cost of raising funds of Isracard Ltd.

Note 13 – Credit from Banking Corporations

In NIS millions

	As at December 31, 2016 Average annual interest rate For daily balance %	As at December 31, 2016 Average annual interest rate For transactions in the last month %	As at December 31 2017 In NIS millions	As at December 31 2016 In NIS millions
Credit in current debit accounts	0.62	0.52	3	1

Note 14 – Creditors in Respect of Credit-Card Activity

In NIS millions

	December 31 2017	December 31 2016
Merchants (1)	2,563	2,471
Prepaid income	1	10
Provision for loyalty program	79	77
Expenses payable	18	16
Others	31	27
Total creditors in respect of credit-card activity	**2,692**	**2,601**

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 105 million as at December 31, 2017 (December 31, 2016 - NIS 96 million).

Note 15 – Other Liabilities

In NIS millions

	December 31 2017	December 31 2016
Surplus reserves over provision for employee rights (see Note 8)	4	2
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	1	2
Suppliers of services and equipment	6	7
Expenses payable	4	4
Institutions	5	3
Allowance for credit losses in respect of off-balance-sheet liabilities	3	3
Others	-	*-
Total other creditors and credit balances	19	19
Total other liabilities	**23**	**21**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits

In NIS millions

The pension rights of employees reaching retirement age are mainly covered by the amounts accrued in allowance-based provident funds, compensation funds, and senior employees' insurance policies, while the remainder of such rights is covered by a liability included in the financial statements.

A. Benefits at end of employment and post-employment

	December 31 2017	December 31 2016
Early retirement		
Amount of liability	(1) 4	1
Fair value of plan assets	-	-
Surplus liability over plan assets**	4	1
Grant for non-utilization of sick days		
Amount of liability	*-	1
Fair value of plan assets	-	-
Surplus liability over plan assets**	***-**	1
Other benefits at end of employment and post-employment		
Amount of liability	*-	*-
Fair value of plan assets	-	-
Surplus liability over plan assets**	***-**	***-**
Total	**4**	**2**

* Amount less than NIS 0.5 million.

** Included in "Other Liabilities"

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan

1. Commitments and financing status

a. Change in commitment in respect of forecast benefit

	December 31 2017 Bank employees on loan	December 31 2016 Bank employees on loan
Commitment in respect of forecast benefit at beginning of period	2	2
Service cost	(1) 2	*-
Interest cost	*-	*-
Actuarial loss (profit)	(*-)	*-
Commitment in respect of forecast benefit at end of period	4	2
Commitment in respect of cumulative benefit at end of period	**4**	**2**

* Amount less than NIS 0.5 million.

** Included in "Other Liabilities".

(1) The increase in the liability in respect of early retirement derives mainly from the preparations for the separation of the Company from Bank Hapoalim and the subsequent termination of the employment of the Bank's employees in the short term. An accurate calculation was made for the relevant group of employees. See details in section I below.

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

b. Amounts recognized in the consolidated balance sheet

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan
Amounts recognized in "Other Liabilities"	4	2
Net liabilities recognized at end of the period	**4**	**2**

c. Amounts recognized in cumulative other comprehensive loss, before effect of tax

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan
Actuarial loss (profit), net	-*	-*
Closing balance in cumulative other comprehensive loss	**-***	**-***

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan
Commitment in respect of forecast benefit	4	2
Fair value of plan assets	-	-

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan	For the year ended December 31 2015 Bank employees on loan
Service cost	2	-*	-*
Interest cost	-*	-*	-*
Subtraction of unrecognized amounts:			
Net actuarial loss	-*	-*	-*
Net total benefit cost	**2**	*****	*****

b. Changes in plan assets and in benefit commitments recognized in other comprehensive loss, before effect of tax

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan	For the year ended December 31 2015 Bank employees on loan
Net actuarial loss for the period	(-*)	-*	-*
Amortization of actuarial loss	-*	(-*)	(-*)
Total recognized in other comprehensive loss	**(-*)**	**-***	**-***
Net total benefit cost	**2**	**-***	**-***
Total recognized in the net cost of the benefit for the period and other comprehensive loss	**2**	**-***	**-***

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period (cont.)

c. Estimate of amounts included in cumulative other comprehensive income and expected to be subtracted from cumulative other comprehensive loss to the statement of profit and loss as income in 2018, before effect of tax

	Bank employees on loan
Net actuarial loss	-*
Total expected to be subtracted from cumulative other comprehensive income	*****

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan	For the year ended December 31 2015 Bank employees on loan
Discount rate	0.63%	1.31%	1.54%
Rate of increase in CPI	2.0%	2.0%	
Employee turnover rate	-(1)	-(1)	-(1)
Rate of growth of remuneration	0%-7.5%	0.5%-7.5%	0.5%-7.5%

(1) Turnover rates for increased severance pay and early retirement were determined according to the experience of Bank Hapoalim taking into account the employee's age and gender and reflect a weighted turnover rate of 7.5% a year.

2. Principal assumptions used to measure net benefit cost for the period

	For the year ended December 31 2017 Bank employees on loan	For the year ended December 31 2016 Bank employees on loan	For the year ended December 31 2015 Bank employees on loan
Discount rate	1.31%	1.60%	1.54%
Rate of growth of remuneration	0%-7.5%	0.5%-7.5%	0.5%-7.5%

Note 16 – Employee Benefits (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions (cont.)

b. Effect of a one percentage point change on the commitment in respect of the forecast benefit, before effect of tax

	For the period ended December 31, 2017 One percentage point increase Bank employees on loan	For the period ended December 31, 2017 One percentage point decrease Bank employees on loan	For the period ended December 31, 2016 One percentage point increase Bank employees on loan	For the period ended December 31, 2016 One percentage point decrease Bank employees on loan
Discount rate	(-*)	-*	(-*)	-*
Rate of increase in CPI	(-*)	-*	(-*)	-*
Employee turnover rate	-*	(-*)	-*	(-*)
Rate of growth of remuneration	-*	(-*)	-*	(-*)

c. Future benefit payments expected by the Company

	Bank employees on loan
2018	4
2019	-
2020	-
2021	-
2022-2026	-
2027 and thereafter	-
Total	**4**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

C. Chairman of the Board of Directors

On July 2, 2017, Mr. Eyal Deshe was appointed as Executive Chairman of the Board of Directors, replacing Mr. Ronen Stein, who ceased to serve as Chairman of the Board of Directors of the Company at the end of June 2017.

Mr. Deshe will be entitled to a fixed remuneration in an annual amount of NIS 1.5 million, in respect of a 50% position, linked to the Consumer Price Index for the month of April 2017.

D. Personal Contract – the Company's Chief Executive Officer

1. Dr. Ron Weksler, holds office since February 2016 as the CEO of the Company, Isracard and Europay (Eurocard) Israel Ltd. On February 25, 2016, following the approval of the Company's Salary and Remuneration Committee and the approval of Bank Hapoalim's Remuneration Committee, the Company's Board of Directors approved Dr. Weksler's term of office as CEO of the companies. In the framework of the aforesaid approvals, his remuneration was approved pursuant to a personal employment agreement (the aforesaid employment agreement was updated in January 2017). Until June 30, 2017, Dr. Weksler's term of office was granted to the companies as an employee on loan from Bank Hapoalim.

During the year from February 2016 to June 30, 2017, the CEO was entitled to social benefits and related terms, 90 days advance notice, supplemental severance pay at a rate of 250%, to fixed remuneration as paid to members of Management of Bank Hapoalim in accordance with Bank Hapoalim's remuneration plan (the fixed remuneration included a monthly salary bearing social contributions, a fixed monthly payment without social provisions and a fixed equity remuneration for which there are no social provisions), and variable remuneration in accordance with the relevant remuneration plan of the Company. In accordance with the remuneration plan for each year of distribution, and subject to meeting threshold conditions, a target bonus was determined for the CEO, at a certain percentage of the average bonus budget for members of Management of Bank Hapoalim, according to the remuneration plan of Bank Hapoalim (the target bonus).

2. On June 30, 2017, in preparation for the process of separation of Isracard from Bank Hapoalim, the employment relationship ended between the CEO and Bank Hapoalim. In the framework of the termination of his employment with the Bank, the Bank made the payments to the CEO to which he is entitled on the date of termination of employment relations with the Bank, including advance notice, severance pay, redemption of vacation days, and payment of the balance of convalescence pay. Isracard carried the relative costs related to the termination of employment of the CEO with the Bank in respect of the period on loan. In addition, an employment agreement was signed between the CEO and the Company regarding his position as CEO of the Company, Isracard Ltd. and Europay.

3. The CEO's current employment agreement is for a fixed year commencing on July 1, 2017 and up to March 31, 2021. However, each of the parties is entitled to discontinue the engagement, at any time and for any reason whatsoever, by giving 90 days advance notice. In the event that CEO's employment is terminated or if the engagement ends under the circumstances that are set forth in the Employment Agreement, the CEO will be entitled to the release of all the monies accumulating to his benefit during his work by the Company and to receive a supplemental amount of the severance pay to a rate of 100%.

Note 16 – Employee Benefits (cont.)

D. Personal Contracts – the Company's Chief Executive Officer (cont.)

According to the current Employment Agreement and the Remuneration Policy of the Company, the CEO is entitled to annual variable remuneration and fixed remuneration as paid to members of Management in the Company (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions). Thus, for the year between July 1, 2017 and the end of 2017, the permanent remuneration of the CEO remains the same as the remuneration approved by Bank Hapoalim for the year 2017 in terms of its monetary value.

4. For the year 2018 onwards, the fixed remuneration of the CEO will be based on a monthly salary, which will be determined in accordance with the criteria and principles set forth in the Company's remuneration policy. In addition to the monthly salary during this year, the CEO will be entitled to an annual fixed remuneration in respect of his employment with the Company for that year in respect of which no social contributions will be made, which will be paid in cash in three annual installments, even if the CEO is not employed by the Company on the dates of payment. If in the future the Company changes its policy on the matter (e.g. if the Company's shares are listed for trading on the TASE), the organs of the Company may, on their sole discretion, replace the fixed compensation component without social contributions or its part of the component of equity remuneration.

   In addition to the fixed remuneration, the CEO will be entitled to variable remuneration in accordance with the principles of the Company's remuneration policy and in accordance with the remuneration plan, all as may be from time to time and subject to any law. In accordance with the remuneration policy, the variable annual remuneration will be determined according to the fulfillment of personal goals and part of it will be calculated on the basis of a discretionary component as estimated by the Board of Directors.

   In addition, the CEO will be entitled to a monthly salary and related terms, including pension provisions, a study fund, a vehicle, vacation days, sick leave, all the related conditions to which a member of Management at Bank Hapoalim (Rank 2) is entitled, and convalescence pay. In addition, the CEO is obligated to the Company in respect of confidentiality, non-competition and prohibition of solicitation.

E. Bonus Plan for the CEO of the Company

Within the context of the Company’s CEO's Employment Agreement, Dr. Ron Weksler, the CEO is entitled to variable annual remuneration in accordance with the provisions of the Remuneration Policy and the Remuneration Plan, which were adopted in accordance with the directives issued by the Supervisor of Banks regarding remuneration policy in a banking corporation, including on the matter of payment arrangements and the spreading thereof. In accordance with the Plan, in respect of the year 2017, the annual bonus of the CEO, pursuant to the "personal bonus budget", which will not exceed NIS 300,000 and will be calculated according to the rate of compliance with the target profit. After calculating the personal bonus budget, half will be multiplied by the score given to the manager according to compliance with personal performance targets (hereinafter: **"KPIs"**), as explained below, and half of the personal bonus budget will be granted at the discretion of the Board of Directors.

In respect of 2018 and thereafter, the annual bonus to the CEO will be calculated on the basis of a discretionary component of up to two monthly salaries of the CEO, according to the Board of Directors' assessment, and based on a performance-dependent component of up to 1.5 monthly salaries, that will be calculated in accordance with the rate of compliance with the target profit of the company, and will be coordinated, inter alia, according to a score that will be granted to the manager in accordance with compliance with the KPIs, as detailed in the Remuneration Plan.

Note 16 – Employee Benefits (cont.)

F. Bonuses

On July 23, 2017, the Board of Directors of the Company approved the new Remuneration Policy according to the recommendations of the Remuneration Committee of the Company (hereinafter: **the "Remuneration Policy"**) and Proper Conduct of Banking Business Directive No. 301A of the Banking Supervision Department (hereinafter: **"Directive 301A"**). The Remuneration Policy came into effect from January 1, 2017. The Remuneration Policy was formulated, taking into account the principles of the Remuneration Policy of the Banking Group, as notified to the Remuneration Committee and the Board of Directors of the Company. On January 21, 2018, the Board of Directors of the Company approved the "Isracard Ltd. and Isracard Group - Remuneration Plan (2017)". The Remuneration Plan is consistent with the Remuneration Policy and is derived from and replaces previous Remuneration Plans in existence in the Company until that date. The Remuneration Plan applies to "key employees" in the Company only, as defined in Directive 301A.

The main points of the Remuneration Policy are as follows:
Setting a budget for bonuses to office holders who are not directors (hereinafter: **"members of Management"**)
Separate mechanisms for setting a bonus budgets and formats have been established for business functions and control and supervision functions.

The bonus budget for members of Management that are not a control function is based on the calculation of the Representative Bonus Budget, which will be calculated by multiplying the number of members of Management (other than the control function) by the number of monthly salaries to be determined according to the rate of compliance with the target profit of the Company alone, independent of the Bank. In accordance with the Remuneration Policy, the target profit will be calculated based on the profit of the Isracard Group before tax.

The annual bonus for each manager in a given year will be calculated by multiplying a personal score that will be granted to each manager each year, according to compliance with personal performance targets, by a weighting factor and a bonus point value calculated on the basis of the Representative Bonus Budget and the total of personal scores of all members of Management that are not a control function.

The bonus to members of management in a supervisory and control function will be based on a personal bonus budget, calculated according to the number of monthly salaries according to the rate of compliance with the target profit, and in accordance with the personal score, but differently from the bonus of the other office holders in the Company, this in light of the sensitivity of these positions in terms of the Company's risks. The personal score of each manager consists of a fixed component, that is a component based on the manager's compliance with the pre-determined KPI and a discretionary assessment component that will be awarded on the recommendation of the relevant authorities in the relevant organs of the Company, where there is a difference between the ratio of the different components of the personal score for Management members not in a control function and Management members who are in a control function. It should be noted that even for the purpose of calculating the bonus for members of management in control functions, the target profit will be calculated based on the profit of the Isracard Group before tax. Furthermore, it was determined that as long as there was no event of a change in control of the Company or as long as the Company's shares were not issued to the public, the annual bonus for each office holder will be adjusted to the Bank's performance, in accordance with the mechanism determined in the Remuneration Policy.

Note 16 – Employee Benefits (cont.)

F. Bonuses (cont.)

Ceilings and limits

The annual bonus shall not exceed the ceilings set in the Plan in the Remuneration Policy and the Remuneration Plan. The element of discretion in determining the annual bonus shall not exceed 3 salaries of the employee for the year. In circumstances where there was a substantial deviation from the capital adequacy ratio (as defined in the Bank's Remuneration Plan), in any year, then prior to the approval of bonuses for key employees in the Company, the Company will apply for a recommendation from the member of Management responsible for the Company on behalf of the Bank. The Remuneration Policy includes additional restrictions, inter alia, with respect to new provisions in accordance with Directive 301A regarding the reimbursements of annual bonus amounts paid to the office holder in a period of 5-7 years, in very exceptional circumstances, such as in circumstances where the office holder was involved in conduct that caused exceptional damage to the Company, including unlawful activity, breach of the duty of trust and more; clauses for reimbursement of bonus amounts in the event of an amendment to the financial statements, authority of the Board of Directors to reduce up to 50% of the annual bonus at its discretion under certain circumstances and more, in accordance with the Company's Remuneration Policy.

Payment mechanism – spreading of the annual bonus and the annual payment

Pursuant to Directive 301A, the annual bonus shall be paid in full in cash, unless the variable remuneration of the manager in that year exceeds 40% of the fixed remuneration, and then it is required to spread the annual bonus. Insofar as the obligation to spread the annual bonus will apply, it will be paid as follows: 50% of the annual bonus will be paid in cash after the publication of the Company's annual financial statements, and the remaining 50% of the annual bonus will be paid in three deferred tranches in cash, in accordance with the provisions set out in the Remuneration Policy.

Termination of Employment

In the event that a senior manager works only part of the bonus year, he will be entitled to a proportionate part of the annual bonus depending on the actual period in which he worked in the bonus year provided that he worked at least 90 days in the bonus year (or a shorter period of not less than 60 days, at the recommendation of the Chief Executive Officer). In the event of termination of employment in circumstances which do not qualify for severance pay or in circumstances of breach in the cooling off or non-competition provisions, if applicable, the manager will not be entitled to an annual bonus in respect of the year in which his employment ended, and his entitlement to tranches of the deferred annual bonus if there are any not yet paid at that date will lapse.

Note 16 – Employee Benefits (cont.)

F. Bonuses (cont.)

Remuneration of the rest of the employees of the Company subject to the terms of the remuneration policy

As of 2017, all of the office holders of Isracard are employees of the Company and no longer include employees on loan from the Bank, and therefore are subject to the provisions of the Remuneration Policy, including maximum ceilings for the annual bonus, which apply to all office holders of the Company.

Employees employed directly by the Company who are not office holders in the Company, are entitled to an annual bonus as decided by the Board of Directors of the Company. The decision of the Board of Directors is based on an existing plan made conditional on meeting targets set every year.

G. The Remuneration of Office Holders in Financial Corporations Law

On March 28, 2016, the Knesset passed the Remuneration of Officer Holders in Financial Corporations (Special Approval and Non-allowance for Tax Purposes for Exceptional Remuneration)

Law – 2016 (hereinafter: "**The Law**"). The Law places restrictions on the scale of the remuneration for employees of financial corporations and stipulates, inter alia, that a financial corporation's commitment with a senior office holder or employee, which includes the provision of remuneration, the forecast expense in respect of which, as calculated at the time of the approval, in accordance with generally accepted accounting principles, is expected to arise above NIS 2.5 million a year, requires the approval of the financial corporation's Remuneration Committee, its Board of Directors (with a majority of the external or independent directors) and the approval of a general meeting.

It is further stipulated in the Law that such a commitment (that is to say, in excess of NIS 2.5 million) is not to be approved unless the ratio between the cost of a full time position, for the said remuneration and the expense relating to the lowest remuneration, for a full time position, which the financial corporation has paid, directly or indirectly, to an employee of the corporation, including an employee of a manpower company, where the financial corporation is the actual employer, and an employee of a service contractor who is employed in the provision of services on the financial corporation's premises, in the year preceding the timing of the commitment, is smaller than 35.

The provisions of the Law relate to effective commitments that are approved from the day on which the Law was published (April 12, 2016) and thereafter, however in respect of such commitments, which were approved before the day on which it was published, the provisions of the Law are effective at the end of a period of six months from the day on which it was published.

Further to the approval and recommendation of the Remuneration Committee, as from October 12, 2016, the Company's CEO, who is an employee who is on loan from the Bank, may not receive remuneration for which his forecast "annual expense" exceeds the ceiling that was set in the Law. Accordingly, as from October 12, 2016, the remuneration that is paid to the Company's CEO will be reduced such that it will not exceed the said ceiling (taking into account fractions of a year).

Note 16 – Employee rights (cont.)

H. The Company's Management Staff who were on Loan from the Bank

Commencing from July 1, 2017, the office holders that are members of the Management of the Company, who had previously been employees of the Bank on loan, as employees of Isracard under personal agreements with Isracard, were hired. The absorption of these employees was after the members of the Management as aforesaid terminated their employment with Bank Hapoalim and their employment account was settled with them by the Bank. The Company bore the costs of settling the account with the Company's Management members on loan in connection with the period of their being on loan to the Company by the Bank.

I. Bank employees on loan

As part of the process of separation between Isracard and Bank Hapoalim derived by virtue of the provisions of the law, the parties were required to regulate the issue of termination of employment of employees of the Bank who are employed as on loan to Isracard from the Bank.

In November 2017, a conference was held for employees of the Bank on loan in which they were presented with the options available to them. Employees were presented with alternatives to terminate their employment as being on loan to Isracard:

1. Retirement tracks from the Bank, by employee's age.
2. Track to return to the Bank.

The intention of the parties is to terminate the employee loan plan during the first quarter of 2018, with a large part of the employees ending by April 1, 2018, and some on later dates during 2018, which will be agreed between the parties in the coming year.
In the retirement process, employees are paid sums of money in respect of retirement. Bank Hapoalim applied to the Company to demand that it bear the cost of existing and future retirement. The Company expressed its position, and in the discussions between the parties, the following outline is proposed, subject to the approval of the organs in each of the companies.

Principles of the outline:
1. Employees who retire from the Bank, whether they are absorbed by Isracard or retire fully (on both retirement tracks), the accounting for them will be in accordance with the actual retirement cost of the employees.
2. Employees who return to the Bank, the accounting for them will be according to the actuarial calculation existing for them as of December 31, 2017, by adjusting the employee's actual departure dates.
3. In the case of Section 1 and in the case of Section 2, the accounts will be paid according to the period of time that the employees worked at Isracard compared to the total period of their employment by the Bank, i.e. if the seniority of an employee is 20 years of which he worked for 10 years at Isracard, then the distribution will be in equal amounts.
4. Employees in which Isracard pays part of their salary - the accounting for them will be in accordance with the cost that Human Resources at Isracard have agreed with the Bank at the time of their absorption and not at full cost.
   The Company dealt with this outline as a “Plan Curtailment”. In addition, the Company updated the period of service of the active on-loan employees, and the cost charged to the statement of profit and loss in the last quarter of 2017, due to the outline, in the Group, amounts to NIS 2 million (Including (gains) losses, net, which were reclassified to the statement of profit and loss).

Note 16 – Employee Benefits (cont.)

J. Efficiency Plan

In July 2017, the Company published an outline for a one-time limited voluntary retirement plan. The proposed plan was intended for employees of the Company in the collective labor agreement only, with a seniority of at least 7 years as at March 31, 2017.

The program included two tracks:

1. A discounted bonus track in lieu of an early pension that depends on the seniority of the employee and the period of time remaining to him until retirement age, with certain restrictions.

2. An increased compensation track of 275%.

The actual retirement took place during the months of November and December 2017. On the date of retirement, employer-employee relations ended in final and absolute agreement between the parties. The financial statements include an undertaking in respect of this efficiency plan.

K. Agreement with Employee Union

On December 25, 2017, Isracard signed a collective agreement, which will be in effect until December 31, 2023. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, a job description manual was agreed upon. The job description includes job descriptions and the relevant salaries.

L. Vacations

The Company's employees and employees on loan are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled less than NIS 0.5 million, similar to the corresponding period in the previous year.

Note 17 – Shareholders' Equity

A. Composition (In NIS)

	December 31, 2017 Registered	December 31, 2017 Issued and paid-up	December 31, 2016 Registered	December 31, 2016 Issued and paid-up
Common shares of par value NIS 1 each	500,000	139,326	500,000	139,326

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department

Capital adequacy

As from January 1, 2014, the Company implements Proper Conduct of Banking Business Directives 201-211 on the subject Measurement and Capital Adequacy, as updated, in order to conform to the provisions of Basel III (hereinafter: **"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

Note 17 – Shareholders' Equity (Cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (Cont.)

The implementation of the directives is being performed gradually in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy - Regulatory Capital - Transitional Provision", in order to facilitate compliance with the new requirements for regulatory capital in the framework of the implementation of Basel III, and to set a transitional period until they are fully implemented. The transitional provisions relate, among other things, to regulatory adjustments and deductions from capital, and equity instruments that are not eligible for inclusion in regulatory capital in accordance with the new criteria set out in the Basel directives. In particular, in accordance with the transitional provisions, the regulatory adjustments and deductions from capital as well as minority rights are not eligible for inclusion in regulatory capital and are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018. Capital instruments no longer eligible as regulatory capital were recognized up to a ceiling of 80% as of January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022. As from January 1, 2017, the rate of the deductions from regulatory capital will stand at 80% and the ceiling for qualified instruments in regulatory capital will stand at 50%.

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 are 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.

Furthermore, it was determined that as from January 1, 2015 the minimum overall capital ratios were to be 12.5% for the entire banking sector and 13.5% for particularly significant banking corporations, by January 1, 2017. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive Number 472 on the subject of "Acquirers and Acquiring Debit card Transactions", which contains a relief for a acquirer regarding the shareholders' equity requirement, which is to be calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 (Measurement and Capital Adequacy). However, despite what is stated in Section 40 of Proper conduct of Banking Business Directive 201, the Tier 1 shareholders' equity ratio may not be less than 8% and the overall capital ratio may not be less than 11.5%. This directive has been effective since June 1, 2016. On February 26, 2017, the Company's Board of Directors approved the capital ratio targets.

The Company's Tier 1 shareholders' equity to risk components target is 9%.

The Company's overall capital to risk components target is 12.5%.

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

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

In NIS millions

	As at December 31 2017	As at December 31 2016
1. Capital for purposes of calculating capital ratio		
Tier 1 shareholders' equity and Tier 1 capital, after deductions	416	379
Tier 2 capital	21	19
Total overall capital	**437**	**398**
2. Weighted balances of risk assets		
Credit risk	1,815	1,718
Market risk	22	11
Operational risk	473	438
Total weighted balances of risk assets	**2,310**	**2,167**
3. Ratio of capital to risk components		
Tier 1 shareholders' equity ratio and Tier 1 capital to risk components	18.0%	17.5%
Overall capital ratio to risk components	18.9%	18.4%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (2)	8.0%	8.0%
Minimum overall capital ratio required by the Banking Supervision Department (2)	**11.5%**	**11.5%**

See notes below.

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

B. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

Capital ratio to risk components

	As at December 31, 2017	As at December 31, 2016
Tier 1 shareholders' equity ratio to risk components before implementation of the effect of the transitional provisions in Directive 299	18.0%	17.5%
Implementation of the impact of the transitional provisions in Directive 299	(4) -	(4) -
Tier 1 shareholders' equity ratio to risk components after the effect of the transitional provisions in Directive 299	18.0%	17.5%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 on the subject of "Measurement and Capital Adequacy", and in accordance with Proper Conduct of Banking Business Directive 299 on the subject of "Regulatory Capital – Transitional Provisions

In addition, these figures include adjustments in respect of an efficiency program which were determined pursuant to a letter from the Supervisor dated January 12, 2016 on the subject of "Operational efficiency in the banking system in Israel", which are reflected in equal rates.

(2) In accordance with Proper Conduct of Banking Business Directive 472 "Acquirers and Acquiring of Debit card Transactions", which is effective as from June 1, 2016.

(3) In March 2017, the Company distributed a dividend to its shareholders in the total amount of NIS 10 million.

(4) A rate that is lower than 0.05%.

Leverage ratio

As from April 1, 2015, the Company has been applying Proper Conduct of Banking Business Directive No. 218 on the subject of the leverage ratio (hereinafter: "**The Directive**"). The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in banking corporations and credit card companies (hereinafter: **"Banking Corporation"**).

The leverage ratio is expressed as a percentage, and is defined as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account transitional arrangements that were set. The total exposure measurement of the Company is the amount of balance-sheet exposures, exposures to derivatives and off-balance sheet items. Pursuant to the Directive, a banking corporation will maintain a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance-sheet assets on a consolidated basis is 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. A banking corporation is required to comply with the minimum leverage ratio from January 1, 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until January 1, 2018.

Below is the leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218

	As at December 31, 2017	As at December 31, 2016
Tier 1 capital (in NIS millions)	416	379
Total exposures (in NIS millions)	4,038	3,860
Leverage ratio	10.3%	9.8%
Minimum leverage ratio required by the Banking Supervision Department	5.0%	5.0%

Note 18 – Contingent Liabilities and Special Commitments

In NIS millions

A. Off-Balance-Sheet Financial Instruments

	December 31 2017	December 31 2016
Unutilized credit-card credit lines:		
Credit risk on the Company	2,322	2,249
Credit risk on banks	5,208	4,957
Allowance for credit losses	(3)	(3)
Total unutilized credit-card credit lines, net	**7,527**	**7,203**
Other liabilities:		
Exposure in respect of merchant credit lines	10	13
Allowance for credit losses	(*-)	(*-)
Total other liabilities, net	**10**	**13**

* Amount less than NIS 0.5 million.

B. **Antitrust and Regulatory Initiatives**

1. Antitrust Issues

Pursuant to an arrangement between Isracard and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "**Arrangement**"), the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). See also Section 1.2 under Regulatory Initiatives below. The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Antitrust Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

2. Regulatory initiatives

1. In June 2015, the Banking Supervision Department published a number of directives, the objective of which was to bring about the implementation of recommendations and measures to extend the distribution and use of debit cards in Israel. Among the recommendations, inter alia, the Banking Supervision Department determined instructions for distributing debit cards to bank customers by the banks, rules for the immediate financial settlement of debit card transactions (including the crediting of the merchant for debit card transactions within 3 days from the time of the transmission of a transaction, as from April 1, 2016). In August 2015 an Order was published in the Official Gazette (whose validity was extended until December 31, 2018), in which the Governor of the Bank of Israel declared that the interchange fee for debit card transactions is under supervision and the rate was set at 0.3% of the transaction amount starting on April 1, 2016.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

On February 25, 2018, after receiving the public's comments, the Bank of Israel published the final outline for reducing the interchange fee. The outline for the reduction of the interchange fee in deferred debit transactions will be as follows: from 1 January 2019, the interchange fee will be reduced from 0.7% to 0.6%; from January 1, 2020, the interchange fee will be reduced from 0.6% to 0.575%. As of January 1, 2021, the interchange fee will be reduced from 0.575% to 0.55%; from January 1, 2022, the interchange fee will be reduced from 0.55% to 0.525%. From January 1. 2023, the interchange fee will be reduced from 0.525% to 0.5%.

With respect to the commission paid in immediate debit transactions, commencing on January 1, 2021 the interchange fee will be reduced from 0.3% to 0.275%; from January 1, 2023, the interchange fee will be reduced from 0.275% to 0.250%.

2. In May 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 472 regarding acquirers and acquiring of transactions in debit cards, following the provisions of the Banking Law (Licensing). The directive relates to financial entities whose main activity is acquiring transactions in debit cards and outlines the main rules for acquiring activity. The Directive eases some of the regulatory requirements imposed on credit card companies and acquirers, including easing capital requirements. In addition, the Directive enables the acquirer to lease terminals adapted to EMV technology to merchants, subject to the terms of the Directive. The Directive also relates to various aspects that apply to acquirers and which appeared earlier in Proper Conduct of Banking Business Directive No.470 and specifies the Proper Conduct of Banking Business Directives that apply to an acquirer. Directive 470 expanded the application of some of the protections that the Debit Card Law includes on credit card holders as well as on immediate debit card holders.

3. In June 2015 the Banking Supervision Department issued a directive for implementation of the EMV security standard, both in issuance and in acquiring, which was embedded also in Proper Conduct of Banking Business Directive 470 and additional instructions. The directive and the instructions issued by the Banking Supervision Department, which were issued later, including amendments to Proper Conduct of Banking Business Directive 472 above, refer, inter alia, to timetables for issuing cards that support the EMV standard and for connecting terminals supporting the standard to the new debit card system, as well as the entry into force of a mechanism for shifting responsibility from the issuer to the acquirer. The application of the mechanism for shifting responsibility has been set for January 1, 2019.

4. In July 2016, The Strum Committee (the committee for examining increasing competitiveness in common banking and financial services), which was appointed by the Minister of Finance and the Governor of the Bank of Israel, published its recommendations and following this, on January 31, 2017, the "Strum Law" was published in the Official Gazette. Under the Strum Law it was decided, among other things and subject to the conditions specified in the Law: to separate debit card companies from banks defined in the law as "a bank with a wide scope of activity" within 3 or 4 years from the date of publication of the Law; to grant authority to extend the obligation of separation to another bank; to set provisions regarding the acquisition of means of control in debit card companies; to prohibit the large banks from operating the issuance and acquiring of their own debit cards; to grant infant organization protections in a time-limited temporary provision for new players, including debit card companies; to allow debit card companies to use the information in their possession, inter alia, arising from the operating of the issuance; to prohibit certain banks from limiting or preventing an operating body as defined in the Law, to grant financial services, including granting credit to customers of the bank; to oblige all banks to present all debit cards and the terms of all the issuers who requested the bank to do so; prohibition on an acquirer to refuse to enter into an agreement with an aggregator, as defined in the Law, for unreasonable reasons, and to set rules regarding the engagement between them; the obligation of an acquirer to engage with a hosted acquirer, within its meaning in the Law, and in accordance with the conditions prescribed in the Law and the rules to be set (see Section 5 below).

Note 18 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

On October 25, 2017, the Committee for the Examination of Competition and Reduction of Concentration in the Israeli Banking Market published the criteria for examining the state of competition in the credit market. On February 18, 2018, the Banking Supervision Department published a document entitled "Criteria and General Conditions for an Applicant to control and hold means of control in an acquirer and in a credit card company" and a presentation with regulatory emphasis on those interested in purchasing the separated credit card companies. The presentation presents, among other things, information about the companies, as well as points of strength of the credit card companies and their main challenges.

5. In August 2017, the Banking Supervision Department published a draft for the public's comments on the Banking Rules (Rules for Hosting an Acquirer), which includes, inter alia, reference to the hosting conditions, the hosting agreement, the hosting price and the limitations on acquitting a hosted acquirer.

6. In August 2016, the Supervision of Regulated Financial Services Supervision Law was published, according to which, for the first time, a framework was established that regulates the non-banking and non-institutional credit market in Israel, as well as expanding on all matters pertaining to the currency service providers sector. Those engaged in granting credit, as defined in the Law, will be subject to licensing requirements, with the exception of an exemption to certain entities by law, including auxiliary corporations and those who are "acquirers" under the Banking Law (Licensing). In addition, those engaged in the currency service providers sector, on the receipt of deposits and in services such as the issuance of prepaid cards, will be subject to a licensing requirement to provide services in a financial asset. With respect to the granting of credit, the Law came into force on June 1, 2017, and regarding services in a financial asset, the Law will enter into effect on June 1, 2018. On December 29, 2016, the Law was amended, and arrangements were made for activity of cooperative societies engaged in deposit and credit services, as well as the activity of issuing credit cards by non-banking corporations, auxiliary corporations and other entities that will receive an exemption according to the provisions of the law. In addition, in January 2017, the Law was amended and a chapter was added to regulate a service for the comparison of financial costs. In August 2017, an additional amendment to the Law, was published which came into force on February 1, 2018, under which operating a system of credit intermediation between individual lenders and borrowers (P2P System) is subject to licensing. As a rule, a banking corporation, an auxiliary corporation or an acquirer is not subject to a license to operate a credit mediation system. However, as part of the Amendment to the Law, banks and auxiliary corporations are prohibited from engaging in the operation of a credit intermediation system, controlling the operator of such a system, and holding means of control therein, and if the system operator was an individual - to have influence therein, for a period of three (3) years from the date the Law came into effect. Notwithstanding the aforesaid, a bank that received a banking license from the date of the commencement of the Law, as well as an auxiliary corporation that prior to the commencement of the Strum Law was controlled by a bank with a large volume of activity, may hold during the said year up to twenty percent (20%) of a certain type of means of control over the operator of a credit intermediation system, provided that this does not give them control over the system operator.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

7. In August 2017, an amendment was published to the Non-Bank Loans Arrangement Law, 1993. The amendment to the Law will come into force on November 9, 2018. According to the amendment to the law, the name of the law will be replaced with the Fair Credit Law, The amendment stipulates that, except for borrowers who are individuals, certain corporations that are to be determined will also be included under the definition of borrowers. The ceiling was fixed on the cost of credit that will apply to lenders in the economy (including banking corporations, auxiliary corporations and acquirers), and rules were set regarding the process of extending credit, provisions regarding interest on arrears and more.

8. In April 2016, the Credit Data Law, 2016 was published, which is expected to come into force in October 2018, according to which an arrangement was determined for sharing credit data, including the collection of credit data from the information sources prescribed by the Law, and their retention in a central database operated by the Bank of Israel and the provision of credit data to credit bureaus for processing and transferring them, inter alia, to credit providers, in accordance with the legislator's intention for the purpose of improving service in credit data in the economy in order to increase competition in the retail credit market, increase access to credit and reduce discrimination in this field. The Law determines issuers of debit cards and banking corporations (including auxiliary corporations) as a source of information that will be reported to the database that is established by virtue of the Law. In addition, the Law provides arrangements relating to the use of information in the database by credit providers and receipt of credit indications from the credit bureau that holds the information.

9. In March 2017, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 411 regarding the management of the risks of money laundering and prohibition on financing of terrorism. The amendment is in line with the latest international standards regarding the prohibition on money laundering and the financing of terrorism and is expected to assist the State of Israel being accepted as a full member of the FATF. The amendment expands the existing Directive on the subject and was re-edited as a Risk Management Directive. Application of the Directive was set for January 1, 2018.

10. In March 2017, the Knesset plenum approved in its second and third readings an amendment to the Prohibition on Money Laundering Law, which was intended to improve the fight against money laundering and the adaptation of existing legislation to international standards in this area, pursuant to the FATF agreement. In July 2017, the Knesset plenum approved in the second and third readings, an additional amendment to the Prohibition on Money Laundering Law, in which the definition of a "banking corporation" was extended to apply to an acquirer.

11. In February 2018, the Knesset's Constitution Committee approved the Prohibition on Money Laundering Order (Obligations of Identification, Reporting and Record-Keeping of Credit Service Providers for the Prevention of Money Laundering and the Financing of Terrorism). The Order regulates the obligations regarding the prohibition of money laundering and the financing of terrorism by a body that is required to obtain a license for granting credit in accordance with Chapter C of the Control of Financial Services (Regulated Financial Services) Law, 2016, which is the body appointed in the Third Schedule to the Prohibition of Money Laundering Law, as well as discounting services providers and aggregators.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

12. In July 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 367, "E-Banking", as well as an amendment to the supplementary directives to the said directive, including Proper Conduct of Banking Business Directive No. 420 regarding the sending of notices by means of communication (an additional amendment to the directive was published in January 2018). In addition, in August 2016, a circular was published on the subject of "Types of accounts and conditions if they occur when the Customer's signature would not be required on the Agreement". The Directive on "E-Banking" regulates banking corporations' activity in communication with their individual or small business customers and enables remote activity in a variety of banking services. Alongside the easements, the Directive sets principles for risk management in E-banking, both in the internal systems and processes of the banking corporation and in dealing with the customer. The directive came into effect in January 2017. In March 2017, an amendment to the directive was published. In January 2018, the Banking Supervision Department issued an amendment to the Directive, which includes, inter alia, regulation regarding sending a verbal SMS, as well as regulating the manner of transferring information regarding a balance in a current account from a banking corporation to a financial entity, pursuant to the provisions of the "Strum Law".

13. In August 2015, the Bank of Israel published an interim report on the "Chain of Executing Debit Card Transactions" which includes recommendations for increasing competition, efficiency and stability in the debit card market, which, according to the Bank of Israel, is expected to remove the existing barriers in the market and enable the entry of new players. In July 2016, the Bank of Israel published, as part of the Report's conclusions, a document entitled "Principles and related steps for the development of a protocol for the execution of a debit card transaction and its use" which presents the principles of the protocol (technological specifications and interface structure, which is used to transmit information about a transaction on a debit card between parties in the chain of execution of the transaction) and recommendations for accompanying measures for the implementation of the principles, as well as the terms of access to the audited payments systems. In May 2017, the Bank of Israel published the components of the protocol.

14. In October 2016, the recommendations of the final report of the inter-ministerial committee to promote the use of means of payment were published. The principles in the document will form the basis for a memorandum law on the subject. The principles were based on the European Directive for Payment Services, PSD and PSD2, after making the adjustments required for the domestic market. One of the objectives of the Payment Services Law as defined in the Principles Document is to adapt consumer protections in the area of payment services and the setting of conditions of use and uniform consumer protections, as far as possible, in receiving payment services from the various service providers and through the various means of payment. However, each regulator will be authorized to set additional provisions for the entities it oversees according to their characteristics. Financial market entities will be able to choose the appropriate license according to their type of activity and its level of risk. In July 2017, as part of the committee's recommendations, a draft memorandum of the Payment Services Law, 2017 was published. The memorandum seeks to regulate the relationships between the provider of payment services to the payee, and between payment services to the beneficiary in the use of advanced means of payment, as well as setting general instructions regarding the implementation of payment instructions and warranty arrangements relating to them. As part of the memorandum, among other things, the Debit Cards Law, 1986 will be replaced by a more up to date law.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

15. In July 2017, the Knesset plenum approved in its first reading the proposed Consumer Protection Law (Amendment No. 55), (Professional human voice response in a call routing system), according to which a trader providing a telephone service that includes an automated system for routing calls will enable the consumer immediately after choosing the language in which the service will be provided, to receive at least a human response on issues of handling malfunctions, clarifying the account and terminating the contract, while allocating a maximum waiting period. Violation of the directive will enable imposition of monetary sanctions on a trader who is a corporation. As part of the deliberations of the Economics Committee, the Supervisor was asked, subject to the enactment of the law, to act to regulate the matter also in banking corporations.

16. The Automated Banking Services Company Ltd. ("ABS") serves as a communications switch between the merchants and the acquirers. To the best of the Company's knowledge, in September 2017, the Bank of Israel determined that ABS would make available to all market users without consideration the communications protocol used for the execution of debit card transactions. In order to implement the transfer of the protocol, as aforesaid, the Antitrust Authority ordered the establishment of a voluntary association, to which ABS will transfer all of its rights in the communications protocol for no consideration, In accordance with the instructions of the Antitrust Authority, the association will allow any user of the protocol to join it at no cost, and that the voting rights in the association will be determined in such a way as to give appropriate representation to all users. Currently, discussions are being held by the Bank of Israel's Debit Card Committee regarding the regulations.

17. In July 2015, the Knesset plenum approved in its first reading a draft Law to Reduce the Use of Cash, 2015. This proposed law is divided into two main levels: the first level concerns the establishment of prohibitions and restrictions, such as the prohibition on giving or receiving cash payment as part of certain transactions over certain amounts. The second level deals with determining arrangements that ensure the access and availability of a means of alternative payment, which will be equivalent in terms of use and price to the means of payment whose use it is proposed to limit. The hearing was referred to the joint committee of the Constitution and Finance Committees for approval of the bill for second and third readings. In January 2018 the government approved a decision in which, among other things, the Bank of Israel issued a notice stating that it is examining a number of issues, including the possibility of obligating banking corporations to issue their customers with a combined card that serves both as an immediate debit card and a credit card.

18. In February 2018, the Constitution, Law and Justice Committee of the Knesset approved for the second and third reading the Law of Insolvency and Economic Rehabilitation, 2016, which deals with the process of rehabilitation of debtors, individuals and companies. According to the bill, among other things, mechanisms were set for the discharge of debts for individuals (including managing the process for debts up to NIS 150,000 in the framework of the Execution Office), and infrastructure for holding debt arrangements in companies.

Note 18 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

19. In August 2011, an amendment to the Banking (Licensing) Law was published, whereby, inter alia, a person engaged in the acquiring of charge cards will be subject to receiving an acquiring license, while the entities that dealt with the date of the law's entry into effect in acquiring operations were granted relief. In addition, additional restrictions were set, such as the duty of an issuer with a broad scope of activity, an issuer who issued ten percent or more of the number of debit cards issued in Israel, or an issuer whose debit cards issued at least 10 percent of the amount of transactions carried out in Israel [SB1] (as defined in the Law) to enter into a cross-acquiring agreement with any acquiring agent, unless he refuses to enter on reasonable grounds. In addition, the amendment to the law includes an amendment to the Banking Law (Customer Service), 5741-1981 ("the Banking Law, Customer Service"), which deals with the regulation of the discount market and includes the imposition of various restrictions on acquirers, including the prohibition of discriminating between discounting companies, the prohibition on refusing to engage with a discounting company due to unreasonable grounds and the prohibition on connecting between acquiring services with other services. In 2015, the Bank of Israel issued directives and instructions regarding the application for the license and the conduct of the acquirers in 2015. Isracard was defined by the Bank of Israel as an issuer with a wide scope of activity for the purpose of the law, and as a result Isracard granted licenses for the acquiring of the "Isracard" brand to Leumi Card and ICC (for details, see the section "Acquiring segment" in the Directors' Report under the heading "Acquiring arrangements with other credit card companies and other arrangements with respect to the sector.") In this context, it should be noted that the Banking Licensing Law authorized the Minister of Finance or the Supervisor of Banks (as the case may be) to consider additional corporations as part of the acquirer / issuer with a broad scope of activity (a corporation in which the acquirer / issuer is an interested party; a corporation that controls the acquirer / issuer and / or a corporation that controls the acquirer / issuer is an interested party therein) - for example, a decision may be made that Poalim Express is part of Isracard for being a acquirer / issuer which has a broad scope of activity, and accordingly, the restrictions applicable to Isracard in this context will also apply to Poalim Express. In this regard, in July 2017, the Ministry of Finance informed Poalim Express that insofar as the fees collected by it from the merchants in local transactions in the brand in which it has exclusive acquiring and issuance are to be reduced in a gradual manner, so that by the end of December 2017 the maximum commission will be 2.95%; by the end of December 2018, the maximum commission will be 2.45%; by the end of December 2019, the maximum commission will be 2.10%; and at the end of June 2020, the maximum commission for a merchant will be 1.99%. At this point, the Minister of Finance does not see the need to exercise his authority under section 36.M (a) of the Banking (Licensing) Law or support bills that have the same meaning as exercising such authority or directly and specifically intervene in the brand commission beyond the aforementioned outline.

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

Note 18 – Contingent Liabilities and Special Commitments (cont.)

C. Legal Proceedings and Pending Claims

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

1. In April 2014, the Company and Isracard received a claim and a petition for its certification as a class action. The personal claim is approximately NIS 145, and the amount of the class action was not specified. According to the plaintiff, which is a business bound by acquiring agreements with the respondents, the defendants acted unlawfully, in that they charged it a minimum fee while it was bound by agreement in parallel with a discounting company, under which the discounting company discounts some of the transactions it settled by means of the defendants without taking into account the amounts credited to the discounting company. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting firm. The parties reached a compromise agreement, which received the Court's approval in March 2017.

2. In February 2016, the Company, Isracard and Europay received a lawsuit and a motion for its approval as a class action. This motion is a continuation of the Court's ruling on the matter of the lawsuit that is detailed in Section 1 above, in which a motion for a class action was approved on identical grounds vis-à-vis the customers of one company. The plaintiffs, who are merchants who are committed under acquiring agreements with the respondents, allege that they acted unlawfully in that they collected a minimum commission from them while they had a parallel commitment with a discounting company under an agreement in accordance with which it discounted part of the transactions that were cleared through the respondents by means of the discounting company, without taking into account the amounts with which the discounting company had been credited. The amount of the class action was not denoted. The parties have reached a compromise agreement, within the context of which the hearing of the case has been consolidated with the above proceedings, which was presented to the Court for approval. The Court has instructed the publication of the compromise agreement in March 2017.

3. In July 2014, the Company and Isracard received a lawsuit and a motion for its approval as a class action against the companies and another credit card company. The personal claim is approximately NIS 17, and the class action was estimated by the plaintiffs at an amount of NIS 200 million, purely as an estimate. According to the plaintiffs, the manner according to which the companies perform the conversion to shekels for transactions made in foreign currency represents an additional fee for which no proper disclosure was made to customers, and that thereby the Company violates various provisions of the law. An evidential hearing was held in March 2016, summations have been presented and the judgment is awaited

Note 18 – Contingent Liabilities and Special Commitments (cont.)

C. Legal Proceedings and Pending Claims (Cont.)

4. In June 2015, the Company, Isracard and Europay received a lawsuit and a motion for its approval as a class action. According to the petitioner, the respondents do not inform their customers that it is not possible to make transactions with some overseas merchants with a credit card that does not have a chip. The remedy sought is, inter alia, the immediate issuance of cards with a chip to all international card holders, compensation for customers who were unable to use their card, reimbursement of the difference between the cost of an international card and a local card, for the prior 7 years. The personal claim is approximately NIS 250, and the damage to the group of plaintiffs was not assessed. In 2016, number of preliminary hearings were held in the case. At the Court's recommendation, the parties conducted an arbitration process and an application for withdrawal was presented in March 2017. In July 2017, a ruling was given by the court approving the request for withdrawal.

5. In April 2016, the Company received a lawsuit and a motion for its approval as a class action. The petitioner who is requesting the approval alleges that the Company is in the habit of sending text messages (SMS) with an advertising content without agreement having been given for this by the addressees, and without the addresses having been able to refuse to receive advertising material or to retract their agreement by means of sending a text message, which is in contravention of the Telecommunications Law (Bezeq and Services) – 1982. The personal remedy that is being requested is not monetary and stands at an amount of NIS 20, with the amount of the class action being estimated at approximately NIS 2 million by the plaintiff. In January 2017, the petitioner filed a petition for removal.

   In addition, a claim and petition to approve the claim as a class action are pending against the Company, as detailed below, for which in the opinion of the Company, based on its legal counsel, it is not possible at this stage to estimate the chances of these legal proceedings and therefore no provision has been made.

6. In December 2017, a petition to approve a claim as a class action was submitted against the Company, Isracard and Bank Hapoalim. According to the petitioners, the card fees for customers of Bank Hapoalim were unlawfully raised in violation of the agreement, lack of good faith and unjust enrichment. The petitioners estimate the size of the group at 1.5 million customers, with the alleged personal damage being NIS 29.4, and the accumulated damage is NIS 180 million. In the framework of the petition, a refund of the aforesaid amount is requested, as well as a determination that the change in the discount hierarchy is canceled

D. Income tax assessment

In November 2017, the Company received income tax assessments (hereinafter: **"the assessment notice"**), to the best of the Company's knowledge, following the audit of an assessment officer, the main issue of which is the amount of the provision in respect of the Company's trust plan (MR) for the years 2013-2015. The assessment amount in respect of all its components amounts to NIS 8 million, excluding interest and linkage. Based on the position of the Company's tax advisors, the Company disputes the assessment notice and therefore, on December 31, 2017, the Company filed an objection to the assessment.

Note 18 – Contingent Liabilities and Special Commitments (cont.)

C. Legal Proceedings and Pending Claims (Cont.)

E. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

F. Agreement with Isracard

The Company has an agreement with Isracard for the operation of the Company's activity in issuing credit cards and acquiring in Israel of transactions executed with merchants using American Express cards. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's activity in the operation of this arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties; see Note 23, "Interested and Related Parties," below.

G. Contractual Engagements with Various Banks in a Banking Debit Card Issuance Arrangement

As at the date of signing of the report, there are various engagements and agreements (whether by virtue of an agreement or by virtue of agreements by virtue of which the parties operate) between the Company and Bank Hapoalim, Mizrahi Tefahot Bank Ltd. (hereinafter: **"Mizrahi Tefahot Bank"**), Bank Yahav for Government Employees Ltd. (hereinafter: **"Bank Yahav"**), the First International Bank of Israel Ltd. (hereinafter: **"the First International Bank"**), Bank Massad Ltd. (hereinafter: **"Bank Massad"**), Bank Otsar Hahayal (hereinafter: **"Bank Otsar Hahayal"**) and Union Bank of Israel Ltd. (hereinafter: **"Union Bank"**) (together hereinafter: **"the Banks Under Arrangement"** and **"the Arrangements with the Banks in the Arrangement"**, respectively), the substance of which is the regulation of the relations between the parties in connection with the issuance of cards from the Company's brands (in whole or in part as applicable) to the customers of the banks in the arrangement, including in connection with the financial accounting between the parties in connection with the issue, distribution and use of the cards and the responsibility of the parties to respect the charges and uses of the cards as aforesaid.

Each of the banks in the arrangement was granted the authority to determine which of its customers would be deemed fit to join the credit-card arrangement of the Company and to recommend to the Company that they be included. Except in relation to certain situations and circumstances determined in the arrangement with each bank, the main ones of which relate to misuse of cards, warranty for use of the card after cancellation, warranty for use of the card after expiry, and more.

Note 18 – Contingent Liabilities and Special Commitments (cont.)

G. Contractual Engagements with Various Banks in a Banking Debit Card Issuance Arrangement (cont.)

Each bank in the arrangement is responsible for honoring in full the debits and payment of the amounts in which its customers will be charged in connection with their activities in the bank cards issued to them by the Company (in relation to the same bank); within the framework of the specific agreements between the Company and each of the banks mentioned in the arrangement, various monetary accounts were arranged in connection with the issuance, distribution and use of bank cards with respect to each bank, such that each party is entitled to certain payments or to participate in the other's expenses / income in connection with the arrangement, which differ between them both by the type of payments paid to each bank and the amounts / rates paid for each type of payment as stated and / or the type / brand of the card and / or the club association of the card and the like.

H. Extension of the Agreement with American Express Ltd.

In May 2016, the agreement with the international American Express Organization in connection with the issuance and acquiring of American Express cards was renewed, the agreement is for an additional period of five years commencing on January 1, 2017. Under this agreement, the Company continues to use the concession for the issuance and acquiring of American Express credit cards. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

I. Contractual Engagements with Customers Clubs

Within the framework of the activity of the customer clubs of the Company, the Company generally enters into agreements from time to time with various entities representing various customer groups, in arrangements for the issuance of credit cards to the members of those customer groups (hereinafter: "**The** "**Club Members**"), and in some cases the customer groups are set up and managed by the Company itself.

The cards issued to the Club Members usually and as applicable grant them discounts, (including discounts / exemption from card fees), credit under preferential conditions, membership gifts, special benefits and services in a variety of merchants that honor the club cards, in accordance with the conditions of each club. The entities taking part in the activity of the Company's customer clubs include, among others, consumer bodies and commercial corporations, employee organizations and professional organizations interested in issuing a club card to their customers and / or their employees by means of credit cards. The Group’s customer clubs can be classified into four main categories: (1) clubs for organizations and professions such as the “Hever” Club (for career soldiers and pensioners, security forces, members of the IDF Disabled Persons Association and their spouses), the "Hot" Club (for practical engineers, technicians, academics in the social sciences and the humanities, social workers and their spouses), the “Ashmoret” Club (members of the Teachers' Union, their spouses and teaching students) and clubs for employee organizations such as “Refael”, “Egged”, and “Israel Aircraft Industries”; (2) consumer clubs such as “Life Style” and customer clubs for retailers and chains such as “Rami Levi” and “Victory”; (3) clubs for youth, soldiers and students, such as “Isracard Youth” (for youth in the 16 to 22 age group), the "Yoter" Club (for soldiers in regular or reserve duty) and "Campus Card" for students; and (4) clubs of various banks in general in the framework of these agreements and according to the specific agreements between the Company and each club from time to time, the Company pays the clubs, usually, various payments in respect of club cards issued to club members by the Company.

Note 19 – Operating Segments

A. General

The Company issues American Express credit cards under a license from American Express Ltd.
The Company issues, clears, and operates American Express credit cards issued for use in Israel and abroad. The Company's activities are managed through two main operating segments: the Issuance Segment, which handles cardholders, and the Acquiring Segment, which handles merchants.

The Issuance Segment

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

Main income items generated for the Company from the Issuance segment: interchange fees, card fees, and fees from foreign currency transactions, as well as other fees as published in the Company's price list.

Interchange fees are fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the acquirer.

Main expenses associated with the segment are: marketing, advertising, and management of customer clubs; various benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements, as well as allocating various operating expenses.

The Acquiring Segment

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and joint sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items generated for the Company from the Acquiring Segment are: fees from merchants, net of interchange fees which are allocated to the Issuance Segment, and net financing income attributed to the Segment.

Main expenses attributed to the Segment are: expenses for recruitment and retention of merchants, joint advertising with merchants, acquiring of sales slips, and production and delivery of credit statements, and the allocation of various expenses.

Note 19 – Operating Segments (cont.)

In NIS millions

For the year ended December 31, 2017

Profit and loss information	Issuance Segment	Acquiring Segment	Total
Income			
Fees from external customers	98	330	428
Inter-segmental fees	145	(145)	-
Total	243	185	428
Net interest income	*-	2	2
Other income (expenses)	(11)	6	(5)
Total income	**232**	**193**	**425**
Expenses			
In respect of credit losses	12	*-	12
Operating expenses	82	37	119
Sales and marketing expenses	93	11	104
General and administrative expenses	21	17	38
Payments to banks	31	59	90
Total expenses	**239**	**124**	**363**
(Loss) profit before taxes	(7)	69	62
Provision for taxes on profit	(2)	17	15
Net (loss) profit	**(5)**	**52**	**47**
Return on equity (percent net profit out of average capital)	(1.6%)	80.5%	11.9%
Average balance of assets	2,756	332	3,088
Average balance of liabilities	127	2,567	2,694
Average balance of risk-adjusted assets	1,890	373	2,263

* Amount less than NIS 0.5 million.

Note 19 – Operating Segments (cont.)

In NIS millions

For the year ended December 31, 2016

Profit and loss information	Issuance Segment	Acquiring Segment	Total
Income			
Fees from external customers	92	313	405
Inter-segmental fees	133	(133)	-
Total	225	180	405
Net interest income	-*	2	2
Other income (expenses)	(8)	2	(6)
Total income	**217**	**184**	**401**
Expenses			
In respect of credit losses	10	-*	10
Operating expenses	79	36	115
Sales and marketing expenses	73	10	83
General and administrative expenses	20	16	36
Payments to banks	38	54	92
Total expenses	**220**	**116**	**336**
(Loss) profit before taxes	(3)	68	65
Provision for taxes on profit	(1)	19	18
Net (loss) profit	**(2)**	**49**	**47**
Return on equity (percent net profit out of average capital)	(0.7%)	83.8%	13.2%
Average balance of assets	2,598	305	2,903
Average balance of liabilities	116	2,432	2,548
Average balance of risk-adjusted assets	1,829	362	2,191

Note 19 – Operating Segments (cont.)

In NIS millions

For the year ended December 31, 2015

Profit and loss information	Issuance Segment	Acquiring Segment	Total
Income			
Fees from external customers	74	294	368
Inter-segmental fees	117	(117)	-
Total	191	177	368
Net interest income	-*	1	1
Other income (expenses)	(3)	1	(2)
Total income	**188**	**179**	**367**
Expenses			
In respect of credit losses	6	(-*)	6
Operating expenses	82	38	120
Sales and marketing expenses	66	10	76
General and administrative expenses	17	13	30
Payments to banks	30	50	80
Total expenses	**201**	**111**	**312**
(Loss) profit before taxes	(13)	68	55
Provision for taxes on profit	(4)	19	15
Net (loss) profit	**(9)**	**49**	**40**
Return on equity (percent net profit out of average capital)	(3.5%)	92.5%	12.9%
Average balance of assets	2,286	291	2,577
Average balance of liabilities	105	2,162	2,267
Average balance of risk-adjusted assets	1,658	343	2,001

* Amount less than NIS 0.5 million.

Note 20 – Assets and Liabilities by Linkage Base

In NIS millions

December 31, 2017

	Israeli currency Unlinked	Israeli currency CPI-linked	Foreign currency (1) USD	Foreign currency (1) Other	Non-monetary items	Total
Assets						
Cash	5	-	11	*-	-	16
Debtors in respect of credit-card activity, net	2,514	13	69	8	-	2,604
Computers and equipment	-	-	-	-	2	2
Other assets	506	-	*-	-	6	512
Total assets	**3,025**	**13**	**80**	**8**	**8**	**3,134**
Liabilities						
Credit from banking corporations	*-	-	-	3	-	3
Creditors in respect of credit-card activity	2,613	13	63	2	1	2,692
Other liabilities	23	-	-	-	-	23
Total liabilities	**2,636**	**13**	**63**	**5**	**1**	**2,718**
Difference	389	(*-)	17	3	7	416

(1) Including foreign-currency linked.
* Amount less than NIS 0.5 million.

Note 20 – Assets and Liabilities by Linkage Base

In NIS millions

December 31, 2016

	Israeli currency Unlinked	Israeli currency CPI-linked	Foreign currency (1) USD	Foreign currency (1) Other	Non-monetary items	Total
Assets						
Cash	7	-	15	-	-	22
Debtors in respect of credit-card activity, net	2,349	12	60	6	-	2,427
Computers and equipment	-	-	-	-	2	2
Other assets	544	-	-	-	7	551
Total assets	**2,900**	**12**	**75**	**6**	**9**	**3,002**
Liabilities						
Credit from banking corporations	-	-	-	1	-	1
Creditors in respect of credit-card activity	2,510	12	68	1	10	2,601
Other liabilities	20	-	1	-	-	21
Total liabilities	**2,530**	**12**	**69**	**2**	**10**	**2,623**
Difference	**370**	**(-*)**	**6**	**4**	**(1)**	**379**

(1) Including foreign-currency linked.
* Amount less than NIS 0.5 million

Note 21 – Assets and Liabilities by Currency and by Maturity

In NIS millions

	December 31, 2017 Expected future contractual cash flows- Upon demand and up to 1 month Cash (1)	December 31, 2017 Expected future contractual cash flows- Over 1 month and up to 3 months Settlement (4)	December 31, 2017 Expected future contractual cash flows- Over 3 months and up to 1 year Contractual (5)	December 31, 2017 Expected future contractual cash flows- Over 1 year and up to 2 years	December 31, 2017 Expected future contractual cash flows- Over 2 years and up to 3 years	December 31, 2017 Expected future contractual cash flows- Over 3 years and up to 4 years	December 31, 2017 Expected future contractual cash flows- Over 4 years and up to 5 years	December 31, 2017 Expected future contractual cash flows- Over 5 years and up to 10 years	December 31, 2017 Expected future contractual cash flows- Over 10 years and up to 20 years	December 31, 2017 Expected future contractual cash flows- Over 20 years	December 31, 2017 Expected future contractual cash flows- Total cash flows[1]	December 31, 2017 Expected future contractual cash flows- No maturity date[4]	Balance sheet balance (2) Total	Contractual rate of return(5)
Israeli currency (including linked to foreign currency)														
Assets	2,070	467	418	59	13	*-	*-	-	-	-	3,027	22	3,049	-
Liabilities	1,527	518	447	77	34	16	*-	-	-	-	2,619	11	2,653	0.01%
Difference	543	(51)	(29)	(18)	(21)	(16)	*-	-	-	-	408	11	396	-
Foreign currency (3)														
Assets	81	4	-	-	-	-	-	-	-	-	85	-	85	-
Liabilities	57	5	1	-	-	-	-	2	-	-	65	-	65	-
Difference	24	**(1)**	(1)	-	-	-	-	(2)	-	-	20	-	20	-
Of which: Difference in USD	19	1	(1)	-	-	-	-	(2)	-	-	17	-	17	-
Total														
Assets**	2,151	471	418	59	13	*-	*-	-	-	-	3,112	22	3,134	-
Liabilities	1,584	523	448	77	34	16	*-	2	-	-	2,684	11	2,718	0.01%
Difference	567	(52)	(30)	(18)	(21)	(16)	*-	(2)	-	-	428	11	416	-
** Of which: Debtors in respect of credit-card activity	1,640	471	418	59	13	*-	*-	-	-	-	2,601	3	2,604	-

Note 21 – Assets and Liabilities by Currency and by Maturity (cont.)

* Amount less than NIS 0.5 million.
(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each cash flow. Data are presented net of the allowances for credit losses.
(2) As included in Note 20, "Assets and Liabilities by Linkage Base."
(3) Excluding Israeli currency linked to foreign currency.
(4) Includes assets in Israeli currency whose repayment date has passed in an amount of NIS 10 million (December 31, 2016 – NIS 3 million).
(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 21 – Assets and Liabilities by Currency and by Maturity (cont.)

In NIS millions

	December 31, 2016 Expected future contractual cash flows- Upon demand and up to 1 month Cash (1)	December 31, 2016 Expected future contractual cash flows- Over 1 month and up to 3 months Settlement (4)	December 31, 2016 Expected future contractual cash flows- Over 3 months and up to 1 year Contractual (5)	December 31, 2016 Expected future contractual cash flows- Over 1 year and up to 2 years	December 31, 2016 Expected future contractual cash flows- Over 2 years and up to 3 years	December 31, 2016 Expected future contractual cash flows- Over 3 years and up to 4 years	December 31, 2016 Expected future contractua cash flows- Over 4 years and up to 5 years	December 31, 2016 Expected future contractua cash flows- Over 5 years and up to 10 years	December 31, 2016 Expected future contractua cash flows- Over 10 years and up to 20 years	December 31, 2016 Expected future contractua cash flows- Over 20 years	December 31, 2016 Expected future contractua cash flows- Total cash flows(1)	December 31, 2016 Expected future contractua cash flows- No maturity date(4)	Balance sheet balance (2) Total	Contractual rate of return(5)
Israeli currency (including linked to foreign currency)														
Assets	1,975	457	410	55	12	-*	-*	-*	-*	-	2,909	15	2,924	-
Liabilities	1,448	508	440	71	30	16	(-*)	1	1	-	2,515	19	2,555	0.18%
Difference	527	(51)	(30)	(16)	(18)	(16)	(-*)	(1)	(1)	-	394	(4)	369	
Foreign currency (3)														
Assets	76	2	-	-	-	-	-	-	-	-	78	-	78	0.23%
Liabilities	63	2	1	-	-	-	-	2	-	-	68	-	68	-
Difference	13	-*	(1)	-	-	-	-	(2)	-	-	10	-	10	
Of which: Difference in USD	9	-*	(1)	-	-	-	-	(2)	-	-	6	-	6	
Total														
Assets**	2,051	459	410	55	12	-*	-*	-*	-*	-	2,987	15	3,002	-
Liabilities	1,511	510	441	71	30	16	-*	3	1	-	2,583	19	2,623	0.18%
Difference	540	(51)	(31)	(16)	(18)	(16)	(-*)	(3)	(1)	-	404	(4)	379	-
** Of which: Debtors in respect of credit-card activity	1,495	459	409	55	12	-*	-*	-	-	-	2,430	(3)	2,427	

Note 21 – Assets and Liabilities by Currency and by Maturity (cont.)

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each cash flow. Data are presented net of the allowance for credit losses.
(2) As included in Note 20, "Assets and Liabilities by Linkage Base."
(3) Excluding Israeli currency linked to foreign currency.
(4) Includes assets in Israeli currency whose repayment date has passed in an amount of NIS 3 million (December 31, 2015 – NIS 2 million).
(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

Note 22 – Balances and Fair-Value Estimates of Financial Instruments

A. General

1. Fair value of financial instruments

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

A "market price" cannot be quoted for most of the Company's financial instruments, because there is no active market in which they are traded. In view of the foregoing, the fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of allowances for credit losses in respect of the debts.

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised credit close to the balance-sheet date.

Note 22 – Balances and Fair-Value Estimates of Financial Instruments (cont.)

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

December 31, 2017

	Balance-sheet balance	Fair value (a) Level 1	Fair value (a) Level 2	Fair value (a) Level 3	Fair value (a) Total
Financial assets:					
Cash	16	16	-	-	16
Debtors in respect of credit-card activity, net	2,604	-	-	2,599	2,599
Other financial assets	495	-	-	495	495
Total financial assets	*** 3,115**	**16**	**-**	**3,094**	**3,110**
Financial liabilities:					
Credit from banking corporations	3	3	-	-	3
Creditors in respect of credit-card activity	2,691	-	-	2,683	2,683
Other financial liabilities	14	-	-	14	14
Total financial liabilities	*** 2,708**	**3**	**-**	**2,697**	**2,700**

* Of which: assets and liabilities in the amount of NIS 16 million and NIS 3 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

Note 22 – Balances and Fair-Value Estimates of Financial Instruments (cont.)

In NIS millions

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

December 31, 2016

	Balance-sheet balance	Fair value (a) Level 1	Fair value (a) Level 2	Fair value (a) Level 3	Fair value (a) Total
Financial assets:					
Cash	22	22	-	-	22
Debtors in respect of credit-card activity, net	2,427	-	-	2,423	2,423
Other financial assets	535	-	-	535	535
Total financial assets	***2,984**	**22**	**-**	**2,958**	**2,980**
Financial liabilities:					
Credit from banking corporations	1	1	-	-	1
Creditors in respect of credit-card activity	2,591	-	-	2,584	2,584
Other financial liabilities	15	-	-	15	15
Total financial liabilities	***2,607**	**1**	**-**	**2,599**	**2,600**

* Of which: assets and liabilities in the amount of NIS 22 million and NIS 1 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

Note 23 – Interested Parties and Related Parties of the Company

In NIS millions

A. Balances

December 31, 2017

	Interested parties Controlling shareholders Year-end balance	Interested parties Controlling shareholders Highest balance during the year(3)	Interested parties Office holders(2) Year-end balance	Interested parties Office holders(2) Highest balance during the year(3)	Interested parties Others Year-end balance	Interested parties Others Highest balance during the year(3)	Other related parties(3) Year-end balance	Other related parties(3) Highest balance during the year (3)
Assets								
Cash	14	49	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	-	-	1	2
Other assets	-	-	-	-	495	568	-	-
Liabilities								
Credit from banking corporations	3	4	-	-	-	-	-	-
Creditors in respect of credit cards activity	17	25	-	-	252	267	** 10	** 354
Other liabilities	-	-	*-	*-	-	-	-	-
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	2,990	2,990	5	5	-	-	-	-
Guarantees given by banks	1,161	1,187	-	-	-	-	-	-

* Amount less than NIS 0.5 million.

** The change results from the recent updating of related parties of the parent company

(1) Transactions with related parties were performed in the normal course of business, at terms similar to those of transactions with entities unrelated to the Company.

(2) Based on balances at the end of each month.

Note 23 – Interested Parties and Related Parties of the Company

In NIS millions

A. Balances (cont.)

December 31, 2016

	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year (3)
Assets								
Cash	22	36	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	-	-	-	-
Other assets	-	-	-	-	535	535	-	-
Liabilities								
Credit from banking corporations	1	4	-	-	-	-	-	-
Creditors in respect of credit cards activity	12	22	-	-	234	254	388	396
Other liabilities	-	-	-	-	-	-	-	-
Shares (included in equity)	-*	-*	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	2,795	4,402	4	5	-	-	-	-
Guarantees given by banks	1,074	1,132	-	-	-	-	-	-

* Amount less than NIS 0.5 million.

(1) Transactions with related parties were performed in the normal course of business, at terms similar to those of transactions with entities unrelated to the Company.

(2) Based on balances at the end of each month.

Note 23 – Interested Parties and Related Parties of the Company (cont.)

In NIS millions

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

For the year ended December 31, 2017	Interested parties Controlling shareholders	Interested parties Office holders (1)	Interested parties Others	Other related parties
Income from credit-card transactions	3	-	25	4
Net interest income	(1)	-	-	-
Operating expenses	(1)	-	-	-
Selling and marketing expenses	-	-	-	(2)
General and administrative expenses	-	(1)	(29)	-
Payments to banks	(51)	-	-	-
Total	**(50)**	**(1)**	**(4)**	**2**

For the year ended December 31, 2016	Interested parties Controlling shareholders	Interested parties Office holders (1)	Interested parties Others	Other related parties
Income from credit-card transactions	1	-	23	35
Net interest income	-*	-	-	-
Operating expenses	(1)	-	-	-
Selling and marketing expenses	-	-	-	(2)
General and administrative expenses	-	(1)	(27)	-
Payments to banks	(52)	-	-	-
Total	**(52)**	**(1)**	**(4)**	**33**

For the year ended December 31, 2015	Interested parties Controlling shareholders	Interested parties Office holders (1)	Interested parties Others	Other related parties
Income from credit-card transactions	1	-	20	30
Net interest income	-*	-	-	-
Operating expenses	(1)	-	-	-
Selling and marketing expenses	-	-	-	(1)
General and administrative expenses	-	(1)	(23)	-
Payments to banks	(42)	-	-	-
Total	**(42)**	**(1)**	**(3)**	**29**

* Amount less than NIS 0.5 million.
(1) Including their close family members.

Note 23 – Interested Parties and Related Parties of the Company (cont.)

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2017 Office holders Total benefits	For the year ended December 31, 2017 Office holders Number of benefit recipients	For the year ended December 31, 2016 Office holders Total benefits	For the year ended December 31, 2016 Office holders Number of benefit recipients	For the year ended December 31, 2015 Office holders Total benefits	For the year ended December 31, 2015 Office holders Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	4	1	4	1	6

In addition, in 2017, the Company had salary and related expenses in the amount of approximately NIS 10 million in respect of employees on loan from Bank Hapoalim (in 2016 and 2015, approximately NIS 7 million).

D. Additional Information

- See Note 16 above – Employee Benefits.
- See Note 18 above – Contingent Liabilities and Special Commitments.
- As part of the preparations for separation, the Company has canceled the liability in respect of early retirement related to these employees in the Bank employees on loan plan. See Note 16 above.

Poalim Express Ltd.

Corporate Governance Report, Additional Details, and Appendices to the Annual Report

For the year ended December 31, 2017

List of Tables

The Board of Directors and the Management

During 2017, the Board of Directors of the Company continued to outline the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

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

Further to a notice published by the Bank of Israel regarding steps to ensure the capacity of the competition of the credit card companies which are due to separate from the banks, the parent company was directed to make changes in the composition of the Board of Directors by March 31, 2017, the main points of which are: the Chairman of the Board of Directors must not be one of the employees of the Bank or an office-holder therein. The directors on behalf of the Bank in a credit card company must not be members of the Bank management or office-holders therein, the directors on behalf of the Bank must not be from the area that determines the strategy or management of the business activity of the Bank. The composition of the board of directors in a credit card company must be such that there will not be a majority of directors on behalf of the Bank.

The plenum and its committees held detailed discussions of the various aspects of the Company's activity.

In 2017, 18 meetings of the plenum of the Board of Directors and 12 meetings of the committees of the Board of Directors were held.

Directors with financial and accounting expertise

Pursuant to the regulations of the Banking Supervision Department in the Public Reporting Directives, the Company is obliged to give details of the minimum number of directors with "financial and accounting expertise", which has been determined by it which is appropriate financial the Board of Directors and in the Audit Committee. In order to adapt the minimum number of directors required for the current composition of the Board of Directors, the Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors will be three directors.

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

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is six directors. The number of directors who have financial and accounting expertise, according to their education, skills and experience, in the Audit Committee is two directors. (As of the balance sheet date, December 31, 2017, there were six directors and two directors, respectively.)

Members of the Board of Directors of the Company

Eyal Deshe	Serves as Chairman of the Board of Directors of the Company from July 2, 2017. Serves as director and Chairman of the Board of Directors in Isracard and Europay since July 2, 2017 Serves as Chairman of the Board of Directors in Tevel Advance Technology Ltd. from November 1, 2017. Serves as director in Mobileye Ltd. from March 1, 2013. Serves as a member of the Board of Trustees of the Hebrew University in Jerusalem and as member of the Advisory Council for the MA Program in Financial Economics at the Interdisciplinary Center in Herzliya. Served as Senior Vice-President and Chief Financial Officer in Teva from June 1, 2008 to June 30, 2017. Served as Chief Executive Officer of Teva Pharmaceuticals Ltd. from October 2013 to February 2014. Also served as director in Stratasys Ltd. and ECI Telecom Ltd. B.A. Economics – Hebrew University in Jerusalem. M.B.A., in Business Administrative (Finance) - Hebrew University in Jerusalem. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. E. Deshe, he is not a family member of another interested party of the corporation.

Avi Idelson	Serves as external director in the Company's Board of Directors under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since January 31, 2010, Serves as Chairman of the Audit Committee and member of the Credit Committee of the Board of Directors of the Company. Also serves as External Director under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department on the boards of directors of the following companies: Isracard and Europay~~.~~ Serves as Chairman of the Audit Committee of the Board of Directors of Europay; and as Chairman of the Audit Committee and Remuneration Committee of the Board of Directors of Isracard and serves as member of the Risks Management Committee, Credit Committee and IT Committee of the Board of Directors of Isracard; Senior advisor in human resources in the field of mergers and acquisitions and global systems and a director in companies. Serves as director in Avi Idelson Management and Consulting Ltd. Served as director on the Board of Directors of Mehadrin Ltd. and as member of its Balance Sheet, Audit and Remuneration Committees, as Head of Human Resources and special consultant in the BSG Investments Group; as member of management in the Bank of Israel and Head of the Human Resources and Administration Department; as consultant to companies in the area of human resources, mergers and acquisitions and global systems, as VP of Human Resources at Amdocs, and served in a number of positions at Bank Hapoalim B.M.: Head of the Planning, Research, and Development Department; Head of the Human Resources Management Department; and various positions in the areas of training, operations, and human resources. B.A. in Sociology and Education Administration, Tel Aviv University; M.A. Studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development. Courses in banking and management at Bank Hapoalim. Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University. To the best of the knowledge of the Company and of Mr. A. Idelson, he is not a family member of another interested party in the corporation.

Nitzana Edvi	Serves as external director of the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since October 30, 2011. Serves as a member of the Audit Committee of the Board of Directors of the Company Also serves as external director on the Board of Directors of Europay and on the Board of Directors of Isracard (with effect from May 29, 2012) pursuant to Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department and as a member of the Audit Committees of the Board of Directors of Isracard and and the Board of Directors of Europay Senior economist, lecturer on finance, and member of the teaching staff at the Open University, MBA program. Prior thereto, advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. M.B.A., School of Business Administration, Tel Aviv University. B.A. Economics – Tel Aviv University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Ms. N. Edvi, she is not a family member of another interested party of the corporation.
Itzhak Amram	Serves as external director on the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since December 16, 2013. Serves as member of the Audit Committee of the Board of Directors of the Company. Also serves as external director of the Board of Directors of Europay and of the Board of Directors of Isracard (since September 25, 2011) pursuant to Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department and as member of the Audit Committees of the Board of Directors of Isracard and of the Board of Directors of Europay, and also serves as member on the IT Committee and on the Risk Management Committee of the Board of Directors of Isracard. LL.B.; member of the Israel Bar Association. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party of the corporation.

Zion Ezer	Serves as external director of the Company's Board of Directors under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department from April 16, 2015. Serves as member of the Credit Committee of the Board of Directors of the Company. Also serves as external director on the Board of Directors of Isracard and Europay under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. B.A. in Economics. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. Z. Ezer, he is not a family member of another interested party of the corporation.
Guy Kalif	Serves as director on the Board of Directors of the Company from May 17, 2017. Serves as director on the Board of Directors of the following companies: Europay and, Isracard (with effect from September 2, 2013), Poalim Mortgages Insurance Agency (2005) Ltd. Serves as Chairman of the Risk Management Committee of the Board of Directors of Isracard. Serves as Manager of the Finance and Management Information Sub-Division in the Finance Division of Bank Hapoalim since February 14, 2016. In his previous position, from February 1, 2007, served as Head of the Comptroller Sub-Division of the Finance Division in Bank Hapoalim, and prior thereto, served as Manager of the Reporting and Financial Analysis Department in Bank Hapoalim. M.B.A., specialized in finance and strategy, Tel Aviv University. B.A. in Accounting and Economics, Tel Aviv University; Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. G. Kalif, he is not a family member of another interested party of the corporation.

Boris (Baruch) Gasul	Serves as director on the Board of Directors of the Company from April 6, 2017. Also serves as director on the Board of Directors of Isracard and the Board of Directors of Europay and as Chairman of the IT Committee of the Board of Directors of Isracard. Serves as manager of the Technological Planning Sub-Division in Bank Hapoalim. Serves as director in Poalit Ltd. M.B.A., specialized in Business Administration, Tel Aviv University. B.A. Economics and Accounting – Tel Aviv University Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. B. Gasul, he is not a family member of another interested party of the corporation.
Ronen Stein	Served as director and Chairman of the Board of Directors of the Company until July 2, 2017.
Ofer Levy	Served as director and Chairman of the Board of Directors of the Company until March 30, 2017.
Ronit Meiri Harel	Served as director and Chairman of the Board of Directors of the Company until March 30, 2017.

Senior Members of Management

Dr. Ron Weksler	Serves as CEO of the Company since February 2, 2016. Also serves as CEO of the following credit card companies: Isracard and Europay. Serves as Chairman of the Board of Directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Serves as Director in Global Factoring Ltd. Serves as Director (voluntarily) in Young Business Leadership (Public Benefit Corporation) Member of the Management Committee of the Round-Up for Good Association (R.A.) Member of the Friends of Tel Aviv University. Served as member of management at Bank Hapoalim, Deputy CEO, Head of Strategy Division from November 2013 to February 2016. Served as VP Commerce and Sales in the Company, Europay and Poalim Express from October 1, 2011 to October 31, 2013. From 2002 to October 2011, fulfilled various positions in Bank Hapoalim. Also served as Director in Isracard and Europay. Doctor of Philosophy – Doctor of Public Administration – Bar Ilan University. MBA from Bar Ilan University. B.A. in Law from Tel Aviv University B.A. in Accounting from Tel Aviv University, To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.
Eli Zahav	Member of management of the Company, VP Credit and Finance from August 15, 2016. Also serves as member of management, VP Credit and Finance in Isracard and Europay. Serves as Director on the boards of directors of the following companies: Tzameret Mimunim Ltd., The Israel Spirit (R.A.). In his previous position, served as Sub-Division Manager in the Corporate Division in Bank Hapoalim B.M. B.A. in Law – Ben-Gurion University B.A. in Economics and Political Science – Bar Ilan University To the best of the knowledge of the Company and of Mr. E. Zahav, he is not a family member of another interested party of the corporation

Amir Kushilevitz-Ilan	Member of management of the Company, VP Risk Management and Security and Chief Risk Officer since February 2011. Also serves as member of management, VP Risk Management and Security and Chief Risk Officer in Isracard and Europay. M.B.A., Ben Gurion University B.Sc., Aeronautics and Space Engineering, Technion. To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party of the corporation.
Hagar Ben Ezra	Member of management of the Company, VP Sales and Service since August 2016. Also serves as member of management, VP Sales and Services in Isracard and Europay. In the past, served as VP Service in Bituach Yashir and VP Service in Hertz. B.A. Social Science – Ramat Gan College. To the best of the knowledge of the Company and Ms. H. Ben-Ezra, she is not a family member of another interested party of the corporation.
Meora Shalgi	Member of management of the Company, VP Human Resources since May 1, 2011. Also serves as member of management, VP Human Resources in Isracard and Europay. M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University B.A. in Social Sciences and Liberal Arts, Open University. To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.
Noa Naveh	Member of management of the Company from July 1, 2017, VP and Chief Legal Counsel. Also serves as member of management, VP and Chief Legal Counsel in Isracard and Europay. Serves as Chief Legal Counsel in Tzameret Mimunim. LL.B. – Bar Ilan University To the best of the knowledge of the Company and of Ms. N. Naveh, she is not a family member of another interested party of the corporation.

Nira Schmidt-Manor	Member of management of the Company, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) from July 3, 2016. Also serves as member of management, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) in Isracard and Europay. From 1997, and until the commencement of her term of office in the Company, fulfilled various positions in Bank Hapoalim B.M., and in her previous position, before the commencement of her term of office in the Company, served as Manager of the Marketing and Strategy Headquarters – Corporate Division in Bank Hapoalim B.M. (2014-2016). M.A. (with honors) – Labor Studies – Tel Aviv University. B.A. (with honors) - Social Work School – Tel Aviv University To the best of the knowledge of the Company and of Ms. N. Schmidt-Manor, she is not a family member of another interested party of the corporation.
Ami Alpan	Member of the Management of the Company since February 27, 2007, Manager of Regulation and Special Projects. Also serves as member of management, Manager of Regulation and Special Projects in Isracard and Europay. Serves as director in the following companies: Store Alliance.com Ltd. and Tzameret Mimunim Ltd. Served as director in the following companies: Life Style - Customer Loyalty Club Ltd., Life Style Financing Ltd. and I.D.D.S 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.

Ram Gev	Member of management of the Company, VP Finance and Administration from the end of March 2011. Also serves as member of management, VP Finance in Isracard and Europay. Serves as director on the Board of Directors in the following companies: Isracard (Nechasim) 1994 and Isracard Mimun. In his previous position, served as VP Finance of Harel Finances. Served as Deputy Manager of the Corporations Department in the Israel Securities Authority M.B.A. (specialized in finance) (with honors), Hebrew University of Jerusalem. B.A. in Accounting and Economics (with honors), 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.
Shai Vardi	Member of management, VP Technologies from June 6, 2016. Also serves as member of management, VP Technologies in Isracard and Europay. In his previous positions, served as Commander of the Software Unit in the Israel Police (Deputy Commissioner), VP Technologies of Discount Bank, VP Financial Solutions in Supercom, member of the Board of Directors and Chairman of the IT Committee in CAL. M.B.A. – Tel Aviv University. B.A. in Industrial Engineering and Management – Tel Aviv University. To the best of the knowledge of the Company and of Mr. S. Vardi, he is not a family member of another interested party in the corporation.

Internal Audit

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

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

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

Mr. Zeev Hayo, the Internal Audit of the Company has announced his retirement from his position, which will come into effect from April 30, 2018 or the date of appointment and approval by the Bank of Israel of the new internal auditor of the Company, whichever is earlier. This is against a background of preparations for the Isracard Group's separation from the parent company, Bank Hapoalim (in which he serves as internal auditor), as a result of the Intensification of Competition and the Reduction of Concentration in the Banking Market in Israel Law, (Legislative Amendments), 2017.

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

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

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2017 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; a survey of operating risks; an updated organizational structure of the Company; a round of audits at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company. The audit work plan also includes an examination of the approval processes of material transactions, if any, all based on a comprehensive overview with a focus on risks.

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

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

Auditing resources – 99 days of audit were invested directly in the Company during 2017. In addition, operations received by the Company from outsourcing from its fellow-subsidiary, Isracard Ltd., are audited as part of the internal audit of this company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

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

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

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

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

Summary of Internal Audit activity – A summary of audit activities for 2016 was submitted to the Company in February 2017. A summary of audit activities for 2017 is expected to be submitted to the Audit Committee during the first quarter of 2018.

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

Auditors' Remuneration

Table 1 – Auditors' remuneration (1)(2)
(In NIS thousands)

	2017	2016
For audit activities[3]:		
Joint auditors	449	449
For services connected to the audit		
Joint auditors	23	10
For tax services[4]:		
Joint auditors	12	12
For other services[5]:		
Joint auditors	-	10
Total	35	32
Total remuneration of auditors	**484**	**481**

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

(2) Includes remuneration paid and remuneration accrued.

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

(4) Includes tax consulting.

(5) Mainly includes routine processes.

Salaries and Benefits of Office-holders

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

Transactions with controlling owners and related parties, see Note 23 to the financial statements above.

Additional details

Controlling shareholder in the Company

Poalim Express (hereinafter: "**the Company**") is a corporation which was incorporated in Israel in 1995 and is under the control of Bank Hapoalim B.M. (hereinafter: "**the parent company**" / "**Bank Hapoalim**"). The holder of the control permit in Bank Hapoalim is Ms. Shari Arison.

The controlling shareholder of Bank Hapoalim is Ms. Shari Arison. To the best of the Company's knowledge, Ms. Arison's holdings in Bank Hapoalim are through Arison Holdings (1998) Ltd. ("**Arison Holdings**"), which, close to the date of signing the report, holds shares constituting 20.07% of share capital of Bank Hapoalim, which constitutes a "controlling core" in Bank Hapoalim (as this term is defined in the control permit granted by the Governor of the Bank of Israel).

To the best of the Company's knowledge, as at the date of signing the report, Eternity Holdings One Trust and Eternity Four-A Trust (in this section: "**the Trusts**") hold 30% and 70%, respectively, of the shares of Arison Holdings. Ms. Shari Arison is the principal beneficiary of the Trusts. The trustees of the Trusts are: The Northern Trust Company of Delaware and Fides VE LLC, together with The Northern Trust Company of Delaware, respectively. According to information provided to Bank Hapoalim, Ms. Shari Arison will have sole discretion to vote at the shareholders' meetings of Arison Holdings, by virtue of the power of attorney given to her by the trustees, respectively, in accordance with the conditions prescribed by the Bank of Israel, which the said trustees have confirmed that they are aware of and that they are willing to act accordingly. The power of attorney granted as aforesaid was given without the intention of canceling them at any stage; and if such revocation of the power of attorney occurs to any of the beneficiaries, they must immediately notify the Bank of Israel accordingly and no later than seven (7) days from the date of receipt of the notice of cancellation.

Intangible assets

In May 2016, the agreement with the American Express organization in connection with the issuance and acquiring of American Express credit cards was renewed. The agreement is for an additional period of five years with effect January 1, 2017. In addition, by virtue of its membership in the American Express organization, the Company has a general user-right to the brands owned by the American Express organization.

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

Human Capital

Organizational structure

The organizational structure of the Company consists of eleven (11) functional units, each headed by an officer reporting directly to the CEO. As a rule, the units as aforesaid, (as applicable) include departments, sub-departments, and sections, according to the nature of its activity, which report to the head of the unit.

Personnel system in the Company

Total employee positions in the Company include:

(1) Employees under a collective agreement and/or personal employee agreements signed with Isracard or with Europay.

(2) There are also 5 employees included in the workforce of Bank Hapoalim who are loaned to the Company. For further details, see Note 16i above with regard to the Bank's employees on loan.

(3) External personnel.

Table 2 - Data of the number of employee positions of the Company in terms of full-time positions

	2017	2016
Average positions on a monthly basis	150	156
Total positions at year end	146	159

The total number of employees includes employees employed under agreements for participation in expenses among the Group's companies.

In calculating the number of employee positions, overtime hours for which overtime hours are paid according to specific reporting (not on a global basis) is taken into account.

The number of jobs also includes translation to hours of overtime cost, plus external personnel positions that are not Company employees, but provide work services, which are required to regulate personnel in the framework of ongoing operations and assimilate projects, plus one employee whose salary was capitalized to fixed assets in 2017 (2016 – 8 positions).

Trends in human resources

The Company's human resources strategy emphasizes connecting the employees to the Company's business targets, integrating values of openness, and transparency along with innovation and achievement, while upholding the ethical code.

In 2016 and 2017, the Company continued to maintain this policy, through:

1. Labor relations – stable and quiet labor relations were maintained, with a continuing dialog with partners, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Company's objectives.
3. Adaptation of changes in human-resources policy aimed at achieving improved efficiency and cost savings.
4. Encouragement of employees' efforts for excellence, professional expertise, and success.
5. Encouragement of employees' involvement in and connection to the Company's corporate objectives.
6. Cultivation of employees' sense of belonging, with an emphasis on values such as mutual trust and respect. Again this year, the Company offered a range of welfare activities for employees and their families throughout the year.
7. Leading organization-wide processes in response to changes and in support of the Company's strategy, including adapting the recruitment and training processes and guiding the change with support for managers; developing a experiential, varied and unique learning environment tailored to the Company's goals.
8. Continuing the assimilation of the ethical code, addressing the regulatory amendments for accessibility and corporate responsibility.
9. Increasing the value of giving to the community via the encouragement of volunteering activities through organizational units, individual activities, and company-wide activities, incorporating employees and their families.

Training

As strategic partners aimed at supporting the achievement of the goals of the organization as a whole and of business units in particular, a tailored training program has been developed for each business unit, including a focused program for employees according to needs that have been identified. In 2016 and 2017, the Company continued adapting its training to the challenges and changing business environment, with an emphasis on improving service and sales skills, assimilating new products and services, and training and deepening the professional knowledge of the employees for the various positions and providing tools that encourage professionalism, creativity and openness to innovation. In addition, a comprehensive training program was developed for the subjects of credit, including a variety of courses at different levels of depth and in accordance with the content and requirements of the role of employees in the various units. During these years, a management development program was also implemented, dealing with the creation of a management strategy and its translation into leading, harnessing and managing employees according to skills and abilities and in accordance with the Company's needs.

Corporate responsibility, ethics and regulation

The Company published the Corporate Governance Report once every two years. The Company has published its second Corporate Responsibility Report in 2016, presenting all of the Company's activity in this area and the effects on the Company's stakeholders in 2014-2015.

The Company is committed to values-driven and deferential business conduct with all of its business partners and stakeholders. Isracard's ethical code constitutes the Company's value identity card and reflects the unique values and the code of conduct to which we see ourselves committed. In 2016 and 2017, we took steps to make the Company's marketing website accessible, as part of the implementation of the Accessibility Regulations in the area of service and the Internet. The work program complies with the accessibility regulations. In 2018, the Company plans to publish an updated report for the years 2016 – 2017..

Social involvement and contribution to the community

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

Restrictions, legislation, standards and material special constraints

Restrictions and Supervision of the Company's Operations

Generally as a company engaged in issuing and acquiring charge cards, operating a charge-card system, and extending credit, and like other credit cards in the sector, it is subject to various laws and directives related to its activity in these areas (such as the Debit Cards Law; which regulates relationships between the issuer and the customer relating to the issuance of a card, and includes, inter alia, arrangements such as the need for a contract of engagement, liability in respect of misuse of the card, regulation of non-payment in case of non-supply of a product or service or in case of insolvency of a supplier, etc. The Banking Licensing Law, the Banking Law Service to the Customer; the Banking Ordinance, 1941; the Supervision of Regulated Financial Services Law; the Regulation of Non-bank Loans Law, 1993, the Credit Data Law, 2016; the Strum Law (and legislative amendments issued by virtue thereof), the Bank of Israel Law, 1954, as well as the regulations, orders and rules issued thereunder, which impose on it various duties and restrictions. In addition, the Company is subject to various regulations issued from time to time by the Banking Supervision Department by virtue of circulars letters and directives, which apply to all credit card companies (or any one of them, as the case may be), such as Proper Conduct of Banking Business Directive No. 470 (Debit Cards), which regulates the activities of credit card companies and of banking corporations regarding the operation of a card system. The directive includes instructions with regard to the routine conduct of the issuance and operation of cards, marketing and mailing, as well as instructions regarding the termination of a card contract. In addition, the directive details a list of all the provisions of the Proper Conduct of Banking Business Regulations applicable to credit card companies, including provisions regarding the composition and activity of the board of directors, the compliance officer, the management of risk, transactions with related parties, management of information technology, measurement and capital adequacy, benefits to customers etc. In addition, additional Proper Conduct of Banking Business Directives apply to credit-card companies from the Proper Conduct of Banking Business Directives

It should be noted that in the area of acquiring, the Company's operations are subject to the receipt of an acquiring license or an acquiring approval of the Banking Supervision Department (by virtue of the Banking Licensing Law). As at the date of signing the report, the Company has an acquiring license from the Bank of Israel, which is renewed once a year.

For further details regarding the restrictions, legislation and standards applicable to the Company, including changes and innovations therein, see the section "Regulatory proceedings" in the Report of the Board of Directors, the Acquiring Segment in the section "Operating Segments" of the Report of the Board of Directors, entitled "Acquiring arrangements with other credit card companies and other arrangements with respect to the industry" and Note 18b.1 to the financial statements. For details regarding legal proceedings and contingent liabilities, see Note 18c to the financial statements.

It should be noted that, in addition to the laws relevant to the Company's activity, specifically as stated above, more general laws, such as the Restrictive Trade Practices Law, 1988, the Interest Law, 1957; the Mission Law, 1965; the Supervision of the Prices of Goods and Services Law, 1957, the Control of Products and Services Law, 1996, the Protection of Privacy Law, 1981; and regulations, orders and rules issued by virtue thereof, as well as other laws dealing with the prohibition of money laundering and the financing of terrorism, the protection of privacy, etc.

The laws and directives mentioned in this section above affect, to a great extent, the manner in which the Company's business is managed (similar to other credit card companies), including the services it provides, its commitments, its conduct and the management of its financial resources.

Description of the Company's business by operating segments

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

Credit card issuance segment

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the acquirer or merchant, respectively, for card issuance and operational services.

As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Europay, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

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

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and in the achievement of which the Company invests efforts and resources to achieve, are the following: (1) the issuance of credit cards under international licenses; (2) collaborations with banking corporations for the distribution and issuance of credit cards; (3) high-quality, experienced human capital; (3) high-quality, experienced human capital; (4) quality of customer service; (5) a supportive 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 retaining the size advantage.

Key entry barriers in the operating segment. In the Company's opinion, the key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its trademark, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and investments in technological infrastructures, including an operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services. See also the section "Trends, phenomena, developments and significant changes" in the Report of the Board of Directors.

Contractual arrangements with various banks under the Bank Card Arrangement

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

Competition

The credit-card issuance field is characterized by a very high level of competition, which has intensified in recent years, encompassing all activities and population segments relevant to this sector. For details regarding the credit card sector in Israel and the entities operating therein, as well as trends and regulatory developments that have a material impact on competition in this segment, see the sections "Trends, phenomena, developments and significant changes" and "Regulatory Proceedings" in the Report of the Board of Directors.

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not have credit cards or who have credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition for "wallet share" of cardholders (who may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of Company's products and/or the increase in the volume of use.

The positive factors affecting the Company's competitive standing include among others, the following: (1) the Company is a leader in the area of credit-card issuance in Israel and has the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled and experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

The negative factors affecting the Company's competitive standing include, among others: (1) the abundance of significant regulatory changes; (2) technological improvements that create the possibility of developing alternative means of payment in areas, such as payment using cellular phones, which may result in a decline in demand for credit-card issuance; and (3) the entry of retail and other entities into the issuance field and/or the expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

In order to cope with competition in the segment, the Company takes the following main actions: (1) investment of resources to improve value to cardholders, including by way of improvement of service, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to address the requirements of the Company's customer segments and the needs of market, and the development of alternative products and services to compete with the customary means of payment, such as cash and checks; (3) reinforcement of the Company's status and image through advertising; and (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (5) management of varied benefits plan tailored to the customers' needs.

Credit-card acquiring segment

In acquiring services, the acquiring 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 acquired by the acquirer when purchasing goods or services from the merchants will be settled by the acquirer. The acquirer accumulates debits for transactions executed in the credit cards acquired by the acquirer with a particular merchant that has signed a acquiring 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 acquiring segment in Israel: the Company, Isracard, Europay, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

The Company has acquiring agreements with merchants in various industries. In addition to acquiring services, it offers merchants various financial services, advance payments, and voucher discounting.

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

Critical success factors in the operating segment, and changes therein

In the Company's opinion, the main critical success factors in the Acquiring Segment, the Company's opinion, are the following: (1) the ability to acquire credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide acquiring services and upgrades of existing infrastructures; (3) specification and development of suitable acquiring systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to customers of the Acquiring 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 the utilization of the size advantage; (8) accumulated experience in the area of acquiring 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 acquiring services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license, including a license from international organizations to acquire 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 acquiring; (4) the need to perform acquiring services on a large scale in order to recover the investment in infrastructures, acquiring systems, and other costs; (5) development of a reliable information system for account settlement; and (6) a sales, recruitment, and customer service system.

Together with this, the Strum Law has stipulated conditions for hosted acquirers and aggregators, which make it easier for new players to enter the Acquiring segment (not as fully-fledged licensees, but as players supported by acquirers' infrastructures). These entities have a lower entry threshold to the sector (for example, they do not require an international organization license; smaller investments in infrastructure, etc.).

Competition

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

For details regarding the credit-card industry in Israel and the entities operating therein, as well as trends and regulatory developments that have a material effect on competition in this segment, see the sections "Trends, phenomena, developments and significant changes" and "Regulatory proceedings" in the Report of the Board of Directors above.

Competition in the acquiring sector is focused on recruiting new merchants for acquiring agreements with the Company, retaining existing merchants as customers of the Acquiring Segment, and preventing desertion to competitors, in the absence of material transition barriers and costs, which requires the investment of extensive efforts and resources and high marketing and selling expenses.

Another aspect of competition in the acquiring sector is focused on the development of financial and operational products and services for merchants. Credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services, such as flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant.

The positive factors affecting the Company's competitive standing include the following, among others: (1) a brand with presence and power (2) professional, skilled and experienced human capital responsible for a marketing, sales, and service system specializing in providing suitable solutions for merchants while maintaining regular contact with them; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services; (5) a solid capital structure and positive cash flows.

The negative factors affecting the Company's competitive standing include, among others, (1) regulation, (2) technological developments that create the possibility of development of alternative means of payment in areas, which may cause a decline in credit-card acquiring; (3) a change in the scheme of competition through the entry of acquiring mediators, such as aggregators; and (4) the absence of cost and significant transition barriers. In order to cope with the competition in this segment, the Company takes the following main measures: (1) the 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; (2) the investment of resources to improve the service and to maintain merchants as customers and to increase their loyalty while adapting the products and services to the unique needs of the merchant; (3) deepening cooperation with merchants; (4) a competitive and prudent tariff policy (business commission) and (5) the Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the acquiring service provider, and in formulating the overall perception of the Company by merchants.

For details regarding regulatory restrictions applicable to the Company under antitrust laws, see Note 18i to the financial statements above.

Eyal Deshe	**Dr. Ron Weksler**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 25, 2018

Appendices to the Annual Report

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2017 Average balance(1) In NIS millions	For the year ended December 31, 2017 Interest income In NIS millions	For the year ended December 31, 2017 Rate of income In percent	For the year ended December 31, 2016 Average balance(1) In NIS millions	For the year ended December 31, 2016 Interest income In NIS millions	For the year ended December 31, 2016 Rate of income In percent	For the year ended December 31, 2015 Average balance(1) In NIS millions	For the year ended December 31, 2015 Interest income In NIS millions	For the year ended December 31, 2015 Rate of income In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	-	*-	-	-	*-	-	-	*-	-
Debtors in respect of credit-card activity(3)	23	2	8.70	17	2	11.76	19	1	5.26
Other assets	532	*-	-	502	*-	-	461	*-	-
Total interest-bearing assets	555	2	0.36	519	2	0.39	480	1	0.21
Non-interest-bearing debtors in respect of credit cards	2,499			2,351			2,068		
Other non-interest-bearing assets(4)	34			33			29		
Total assets	**3,088**			**2,903**			**2,577**		

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Includes non-monetary assets and net of the allowance for credit losses.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2017 Average balance[1] In NIS millions	For the year ended December 31, 2017 Interest income In NIS millions	For the year ended December 31, 2017 Rate of income In percent	For the year ended December 31, 2016 Average balance[1] In NIS millions	For the year ended December 31, 2016 Interest income In NIS millions	For the year ended December 31, 2016 Rate of income In percent	For the year ended December 31, 2015 Average balance[1] In NIS millions	For the year ended December 31, 2015 Interest income In NIS millions	For the year ended December 31, 2015 Rate of income In percent
Interest-bearing liabilities[2]									
Credit from banking corporations	2	(*-)	-	3	(*-)	-	3	(*-)	-
Subordinated notes	*-	(*-)	-	*-	(*-)	-	*-	(*-)	-
Other liabilities	**2**	**(*-)**	**-**	**3**	**(*-)**	**-**	**3**	**(*-)**	**-**
Total interest-bearing liabilities	2,671			2,526			2,247		
Non-interest-bearing creditors in respect of credit cards	21			19			17		
Other non-interest-bearing liabilities[3]	2,694			2,548			2,267		
Total liabilities									
Total capital means	**394**			**355**			**310**		
Total liabilities and capital means									
Interest spread	**3,088**	**-**	**-**	**2,903**	**-**	**-**	**2,577**	**-**	**-**
Net return on interest-bearing assets in Israel			0.36			0.39			0.21

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Including non-monetary liabilities, and the allowance for credit losses in respect of off-balance-sheet financial instruments.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Average Balances and Interest Rates – Additional Information Regarding Interest-Bearing Assets and Liabilities Attributed to Activity in Israel

	For the year ended December 31, 2017 Average balance(1) In NIS millions	For the year ended December 31, 2017 Interest income In NIS millions	For the year ended December 31, 2017 Rate of income In percent	For the year ended December 31, 2016 Average balance(1) In NIS millions	For the year ended December 31, 2016 Interest income In NIS millions	For the year ended December 31, 2016 Rate of income In percent	For the year ended December 31, 2015 Average balance(1) In NIS millions	For the year ended December 31, 2015 Interest income In NIS millions	For the year ended December 31, 2015 Rate of income In percent
Unlinked Israeli currency									
Total interest-bearing assets	555	2	0.36	519	2	0.39	480	1	0.21
Total interest-bearing liabilities	*-	(*-)		*-	(*-)	-	1	*-	-
Interest spread			0.36			0.39			0.21
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	-	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	2	*-	-	3	(*-)	-	2	*-	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	555	2	0.36	519	2	0.39	480	1	0.21
Total interest-bearing liabilities	2	(*-)	-	3	(*-)	-	3	*-	-
Interest spread			0.36			0.39			0.21

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Table 3 - Rates of Income and Expenses of the Company and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Analysis of Changes in Interest Income and Interest Expenses

Year ended December 31, 2017 versus year ended December 31, 2016 (In NIS millions)

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

Year ended December 31, 2016 versus year ended December 31, 2015 (In NIS millions)

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

* Amount less than NIS 0.5 million.

(1) The change in quantity was calculated by multiplying the difference between the average balances in each period by the rate of income/expense for the period.
The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Table 4 - Quarterly Statements of Profit and Loss – Multi-Quarter Data

NIS millions

2017				
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	109	110	107	102
Net interest income	1	*-	*-	1
Other income (expenses)	(2)	(*-)	(1)	(2)
Total income	**108**	**110**	**106**	**101**
Expenses				
In respect of credit losses	3	4	3	2
Operating expenses	29	29	30	31
Sales and marketing expenses	30	26	24	24
General and administrative expenses	10	9	10	9
Payments to banks	23	23	23	21
Total expenses	95	91	90	87
Profit before taxes	13	19	16	14
Provision for taxes on profit	3	5	4	3
Net profit	**10**	**14**	**12**	**11**
Basic net profit per common share (in NIS)	**74**	**98**	**90**	**76**

* Amount less than NIS 0.5 million.

Table 4 - Quarterly Statements of Profit and Loss – Multi-Quarter Data (cont.)

NIS millions

2016

	Q4	Q3	Q2	Q1
Income				
From credit-card transactions	101	107	101	96
Net interest income	1	-*	1	-*
Other income (expenses)	(2)	(1)	(2)	(1)
Total income	**100**	**106**	**100**	**95**
Expenses				
In respect of credit losses	4	3	2	1
Operating expenses	27	29	28	31
Sales and marketing expenses	24	21	21	17
General and administrative expenses	10	9	8	9
Payments to banks	21	25	24	22
				80
Total expenses	**86**	**87**	**83**	
Profit before taxes	14	19	17	15
Provision for taxes on profit	5	5	4	4
				11
Net profit	**9**	**14**	**13**	
Basic net profit per common share (in NIS)	**70**	**101**	**91**	**78**

* Amount less than NIS 0.5 million.

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

NIS millions

2017				
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash	16	28	36	36
Debtors in respect of credit-card activity	2,623	2,618	2,552	2,575
Allowance for credit losses	(19)	(18)	(16)	(16)
Debtors in respect of credit-card activity, net	2,604	2,600	2,536	2,559
Computers and equipment	2	2	2	2
Other assets	512	516	546	517
Total assets	**3,134**	**3,146**	**3,120**	**3,114**
Liabilities				
Credit from banking corporations	3	*-	2	3
Creditors in respect of credit-card activity	2,692	2,715	2,708	2,714
Other liabilities	23	25	18	17
Total liabilities	2,718	2,740	2,728	2,734
Capital	416	406	392	380
Total liabilities and capital	**3,134**	**3,146**	**3,120**	**3,114**

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data (cont.)

NIS millions

2016				
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash	22	24	36	28
Debtors in respect of credit-card activity	2,443	2,598	2,372	2,341
Allowance for credit losses	(16)	(15)	(14)	(14)
Debtors in respect of credit-card activity, net	2,427	2,583	2,358	2,327
Computers and equipment	2	1	1	1
Other assets	551	512	510	492
Total assets	**3,002**	**3,120**	**2,905**	**2,848**
Liabilities				
Credit from banking corporations	1	3	2	4
Creditors in respect of credit-card activity	2,601	2,728	2,529	2,478
Other liabilities	21	20	18	23
Total liabilities	2,623	2,751	2,549	2,505
Capital	379	369	356	343
Total liabilities and capital	**3,002**	**3,120**	**2,905**	**2,848**

* Amount less than NIS 0.5 million.

Table 6 - Statements of Profit and Loss – Multi-Period Data

In NIS millions

	2017	2016	2015	2014	2013
Income					
From credit-card transactions	428	405	368	332	317
Net interest income	2	2	1	3	5
Other income (expenses)	(5)	(6)	(2)	3	1
Total income	**425**	**401**	**367**	**338**	**323**
Expenses					
In respect of credit losses	12	10	6	1	1
Operating expenses	119	115	120	97	94
Sales and marketing expenses	104	83	76	69	62
General and administrative expenses	38	36	30	28	27
Payments to banks	90	92	80	82	82
Total expenses	**363**	**336**	**312**	**277**	**266**
Profit before taxes	62	65	55	61	57
Provision for taxes on profit	15	18	15	16	14
Net profit for the year	**47**	**47**	**40**	**45**	**43**
Basic net profit per common share (in NIS)	**338**	**340**	**285**	**324**	**309**

* Amount less than NIS 0.5 million.

Table 7 - Balance Sheets – Multi-Period Data

In NIS millions

	2017	2016	2015	2014	2013
Assets					
Cash on hand	16	22	15	15	12
Debtors in respect of credit-card activity	2,623	2,443	2,314	1,962	1,896
Allowance for credit losses	(19)	(16)	(13)	(11)	(10)
Debtors in respect of credit-card activity, net	2,604	2,427	2,301	1,951	1,886
Computers and equipment	2	2	*-	2	2
Other assets	512	551	549	449	438
Total assets	**3,134**	**3,002**	**2,865**	**2,417**	**2,338**
Liabilities					
Credit from banking corporations	3	1	4	2	3
Creditors in respect of credit-card activity	2,692	2,601	2,510	2,108	2,017
Subordinated notes	-	-	-	-	56
Other liabilities	23	21	19	15	15
Total liabilities	**2,718,**	**2,623**	**2,533**	**2,125**	**2,091**
Capital	416	379	332	292	247
Total liabilities and capital	**3,134**	**3,002**	**2,865**	**2,417**	**2,338**