Poalim Express Ltd.

Annual Report

For the year ended December 31, 2016

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Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the management, I am proud to submit to you the Annual Financial Report of Poalim Express Ltd. (hereinafter: "**the Company**") for 2016.

The Company ended 2016 with a profit of NIS 47 million, compared with a profit of NIS 40 million in 2015. The overall capital to risk components ratio increased in 2016 and stands at 18.4%.

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

This year in the digital field, we began issuing an on line American Express card, initiated activities in the field of online commerce and improved the marketing website. This year, in which the "American Express" brand entered its 21st year of activity in Israel, we continued to advance it, and we have already achieved the 650,000 customers mark. Pursuant to this, we continued to invest in enrolling new customers and intensifying the relationship with existing customers. We took steps to develop new growth engines, while placing an emphasis on reinforcing our technological infrastructures for innovation and creativity. We continued to offer our customers unique experiences, including the Performance Arena in the Live Experience American Express Project – in which thousands of customers enjoyed exclusive entertainment and shows by leading artists from Israel and around the world, and the "Round Tables by American Express" project – a unique and exceptional project in the culinary field, which takes place for the second time, in which our customers enjoyed a one-time culinary event bringing together some of the best chefs from Israel and some of the most talked about chefs from around the world from the highest-ranking restaurants. We have also prepared this year to improve American Express' benefits and loyalty program and have launched the bonus benefits plan in parallel to the point accrual plan.

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

With the end of 2016, we look to the future and to the continuation of fruitful business activity. However, because of the changes in the regulatory competitive and technological environment, we formulated a multi-year strategic program for the Company. The program is based on a thorough analysis of the economic, regulatory, and business environment, and supported by the Company's performance ability, led by the management.

2016 ended with significant uncertainty with the completion of the process of legislation of the "Law for Increasing Competitiveness and Reduction of Concentration in the Israeli Banking Market ("the Strum Law"). Implementation of the legislation, including the separation of "Poalim Express" from Bank Hapoalim, places challenges and significant issues, some of which have a material impact on the Company, the structure of the market and the companies operating therein. The new market structure, resulting from the law's implementation, places challenges and significant issues for the Company, but also embodies business opportunities alongside these. The Company will prepare for the changing reality, while continuing to strive to provide the highest quality to its private and business customers.

Beyond business excellence, as a leading company in Israel, the Company considers itself as being committed to giving to the community and it is dedicating special attention to the advancement of the future generation, empowerment of women and strengthening vulnerable, disadvantaged and diverse populations in Israeli society. "Poalim Express" is working constantly to increase its employees' awareness of the issue of social involvement and encourage volunteering. The basic assumption at the base of our concept is that any giver – is a receiver.

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,

Ronen Stein,

Chairman of the Board of Directors

Tel Aviv, February 26, 2017

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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 and clears American Express credit cards issued for use in Israel and abroad under a license granted to the Company by American Express Ltd. (hereinafter: "**the American Express Organization**"). The agreement with the worldwide American Express Organization concerning the issuance and clearing of American Express credit cards was renewed in 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 Clearing Segment, which handles merchants.

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

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

Forward-Looking Information

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

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

Principal Condensed Financial Information

Details of the main developments and changes which occurred in 2016 are as follows:

Net profit of the Company in 2016 amounted to NIS 47 million, compared with NIS 40 million in the corresponding period last year, an increase of 17.5%.

Net return on average equity in 2016 amounted to 13.2%, compared with 12.9% in 2015.

Total assets of the Company at December 31, 2016 amounted to NIS 3,002 million, compared with NIS 2,865 million at the end of 2015.

The balance of debtors in respect of credit card activity, net at December 31, 2016 amounted to NIS 2,427 million, compared with NIS 2,301 million at the end of 2015.

Total capital at December 31, 2016 amounted to NIS 379 million, compared with NIS 332 million at the end of 2015.

The ratio of overall capital to risk elements at December 31, 2016 amounted to 18.4%, compared with 16.1% at the end of 2015.

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

	Year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Income					
From credit card transactions	405	368	332	317	292
Interest income, net	2	1	3	5	7
Other income (expenses)	(6)	(2)	3	1	1
Total income	**401**	**367**	**338**	**323**	**300**
Expenses					
In respect of credit losses	10	6	1	1	6
Operating expenses	115	120	97	94	91
Selling and marketing	83	76	69	62	54
General and administrative	36	30	28	27	25
Payments to banks	92	80	82	82	73
Total expenses	**336**	**312**	**277**	**266**	**249**
Profit before taxes	**65**	**55**	**61**	**57**	**51**
Provision for taxes on profit	18	15	16	14	13
Net profit for the year	**47**	**40**	**45**	**43**	**38**
Principal financial ratios					
Expenses to income	83.8%	85.0%	82.0%	82.4%	83.0%
Expenses to income before payments to banks	60.8%	63.2%	57.7%	57.0%	58.7%
Basic net profit per ordinary share (in NIS)	**340**	**285**	**324**	**309**	**275**

Table 2 - Consolidated Balance Sheets – Multi-Period Information
In NIS millions

	December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Assets					
Cash	22	15	15	12	13
Debtors in respect of credit card activity	2,443	2,314	1,962	1,896	1,744
Allowance for credit losses	(16)	(13)	(11)	(10)	(10)
Debtors in respect of credit card activity, net	**2,427**	**2,301**	**1,951**	**1,886**	**1,734**
Computer and equipment	2	- *	2	2	2
Other assets	551	549	449	438	400
Total assets	**3,002**	**2,865**	**2,417**	**2,338**	**2,149**
Liabilities					
Credit from banking corporations	1	4	2	3	4
Creditors in respect of credit card activity	2,601	2,510	2,108	2,017	1,868
Subordinated notes	-	-	-	56	56
Other liabilities	21	19	15	15	17
Total liabilities	**2,623**	**2,533**	**2,125**	**2,091**	**1,945**
Capital	379	332	292	247	204
Total liabilities and capital	3,002	2,865	2,417	2,338	2,149
Principal financial ratios					
Capital attributed to the shareholders of the Company to total assets	12.6%	11.6%	12.1%	10.6%	9.5%
Total income to the average balance of assets	13.8%	14.2%	14.2%	14.4%	14.5%
Total expenses to average balance of assets	11.6%	12.1%	11.6%	11.8%	12.0%
Tier 1 shareholders' equity ratio	17.5% (1)	15.4% (1)	15.1% (1)	13.8%	12.0%
Overall capital ratio	18.4% (1)	16.1% (1)	15.7% (1)	16.9%	15.3%
Leverage ratio (1)	9.8%	8.5%			
Rate of expenses in respect of credit losses from the average balance of debtors in respect of credit card activity	0.42%	0.29%	0.05%	0.06%	0.37%
Rate of return on net profit to average capital	13.2%	12.9%	16.7%	19.3%	20.8%
Rate of return on profit before taxes to average capital	18.3%	17.7%	22.7%	25.6%	27.7%

* Amount less than NIS 0.5 million
(1) Pursuant to Basel III.
(2) For additional information, see the chapter “Capital Adequacy and Leveraging” below.

For additional information regarding the Company's main data by quarters, see the "Annexes" chapter in the Corporate Governance Report.

Main Risks to which the Company is Exposed

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.

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.

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

Liquidity 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.

Strategic 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.

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

Targets and Business Strategy

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

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

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

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

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

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

Developing and training human resources, adapting to changing needs.

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

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

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

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

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

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

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

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

Strategic cooperation

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 clearing transactions in Israel made with merchants through American Express. 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 international organizations

In May 2016, the agreement with the worldwide American Express organization, with regard to the issuance and clearance 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 clearing 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 banking corporations

The Company is connected with the banks noted below in various agreements for enrolling customers for the Company's credit card arrangement:

Bank Hapoalim B.M. (the parent company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., First International Bank Ltd., Mizrahi-Tefahot Bank Ltd., Bank Jerusalem Ltd. and Bank Igud Ltd. (jointly, the "**Banks Under Arrangement**").

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

Agreements with customer clubs

Pursuant to the activity of the customer clubs, the Company has entered into agreements with various entities representing various customer groups (hereinafter: "**club members**") for the issuance of credit cards to those included in these customer groups. The cards issued to the club members usually give them discounts, benefits and special services in a range of merchants who honor the club card. The entities assuming part of the activity of the customer clubs of the Company and Isracard, including, *inter alia*, employees' organizations, professional organizations and commercial corporations interested in the issue of club cards to their customers and/or employees, via credit card. Within the framework of the various types of credit cards, the Company issues credit cards in cooperation with the organizations, clubs and professional and other consumer bodies, such as Hever - for career military personnel and retirees, "Members" cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, LifeStyle club and El Al Flycards.

The Company's principal service-providers include:

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

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

Automatic Bank Services Ltd. ("ABS") ABS serves as a communications channel between merchants and clearers. To the best of the Company's knowledge, ABS operates a system for collecting transactions executed using credit cards in Israel, centralizes the information on the transactions executed by the various merchants, sorts the transactions by the identity of the relevant clearer with which the merchant has an agreement, and transmits electronic messages to the clearers for approval of execution of the transaction. The Company, like the other credit-card companies in Israel, is materially dependent upon the services provided by ABS. Failure to receive such services from ABS could cause significant damage to the Company's operations.

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

Sources of finance

The Company finances its ongoing operations mainly via credit from banks and cash flow from ongoing activities. In order to maintain the diverse sources of financing, the Company is careful to diversify utilization of the sources of financing through the use of different sources of finance each time, as relevant. In addition, the Company is working to secure a line of liquidity from financial institutions.

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.

The credit card sector in Israel

As of the date of the report, the following companies are active in Israel in the area of the issuance and clearing of credit cards: (1) The Company, which issues and clears American Express credit cards; (2) Isracard, which issues and clears Isracard-type credit cards, 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, and (5) Diners Club Israel Ltd., a subsidiary of CAL, (hereinafter "**Diners**"), which, to the best of the Company's knowledge, issues and clears Diners-type credit cards.

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

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

The credit card sector in Israel is characterized by frequent and dynamic regulatory intervention in the businesses of the companies operating in the field, both because each of them is an "auxiliary corporation", and in connection with their activities in the area of credit cards, including (among other things) the Debit

Cards Law, 5746 – 1986, ("the Debit Cards Law") and the related regulations, the |Banking Law (Service to the Customer), 5741 – 1981, ("the Banking Law (Service to the Customer)") and the Prohibition of Money Laundering Law, 5760 – 2000 ("the Prohibition of Money Laundering Law") and the order which was issued thereunder by the Bank of Israel In addition, Proper Conduct of Banking Management Directive No. 470, which regulates the activity of credit card companies, and Proper Conduct of Banking Management Directive No. 311, which provides standards for risk management, with the aim of strengthening the financial solvency of the banking system also apply to credit card companies in Israel.

Economic and Financial Review

Developments in the Global Economy

Global growth in 2016 stood at 3.1%, similar to the previous year (according to estimates of the International Monetary Fund). A 1.6% slowdown in growth was recorded in the developed countries, compared with 2.1% in 2015. The slowdown in the growth of the developed economies was prominent in the United States, which grew at a low rate of 1.6% compared with 2.6% in the previous year. Average growth in the Eurozone also slowed to 1.7%. In the emerging economies, a similar growth rate to that of the past year was recorded at 4.1%.

Israel's economy

Activity in the economy

In 2016, the economy grew at a high rate of 3.8%, according to the early estimates of the CBS. The growth was led by an increase of about 6% in private consumption, including a sharp increase of 24% in vehicle purchases. The increase in wages in the economy, which was accompanied by a low interest rate and a strong exchange rate, increased the public’s purchasing power, which was the driving force behind the sharp increase in consumption. Last year, there was also a sharp increase of 11% in investments in fixed assets, following a two-year freeze.

Fiscal and monetary policy

The Bank of Israel interest rate stood at the level of 0.1% from March 2015 until the end of 2016. The interest rate remained the same in the first months of 2017 as well. The monetary policy was expansive against the background of negative inflation and the continuous appreciation in the Shekel exchange rate. The gap in interests vis-à-vis the United States continues to widen, in light of the Fed’s increase in interest in December to a level of 0.75%. As of February 2017, indications in the capital market suggest no change in interest rates during 2017.

Inflation and exchange rates

During 2016, the consumer price index (the index for the month) fell by 0.2%. The “known” index fell by 0.3%. This is the third straight year in which inflation has been negative. The decrease in the index was affected by the appreciation in the Shekel exchange rate vis-à-vis the basket of currencies as well as the continued steps taken by the Government to reduce the cost of living. The housing item (measured by rents) was the largest positive contributory factor to the index, this increasing by 1.4%. As of the end of January 2017, indications in the capital market suggest that inflation in 2017 will also be lower than the target, and will stand at only 0.3%. In the Company’s estimation, negative inflation and the low expectations of inflation do not constitute a risk, since they reflect the Government's policy and structural changes in the economy, and not a situation of a lack in demand.

The shekel appreciated by 1.5% against the dollar in 2016, while against the euro, it appreciated by 4.8% in the period. Over the last four years the shekel strengthened at an aggregate rate of approx. 16% against the basket of currencies. Pressures for a revaluation of the shekel increased in 2016 due to a further increase in the surplus on current account in the balance of payments, inter alia, against a background of the fall in energy prices around the world. The Bank of Israel purchased foreign currency estimated at US$ 6.0 billion, of which US$ 1.8 billion is part of the plan to offset the effect of the natural gas on the exchange rate.

Regulatory initiatives

1. In June 2015, the Banking Supervision Department published a number of directives whose purpose is to bring about implementation of recommendations and measures to expand the distribution and use of immediate debit cards in Israel and the intensification of competition in the area of debit cards. Pursuant to the directives, inter alia, the Banking Supervision Department provided regulations for distributing immediate debit cards to customers of the banks and rules for the immediate settlement of accounts in immediate debit transactions and the method of presenting a summary of the transactions executed with thecard and time-tables for implementation, (including crediting of the merchant in transactions executed by immediate debit cards within 3 days of the transaction transmission date, as of April 1, 2016). In August 2015, a temporary regulation was published in the Official Government Gazette, in which the Governor of the Bank of Israel announced an interchange fee for immediate debit transactions as a commission under supervision and the rate was set at 0.3% of the amount of the transaction for a period of a year, with effect from April 1, 2016.
2. In parallel with the above, on the subject of immediate debit card, in June 2015, the Banking Supervision Department published a directive for introducing the use of the EMV security standard, both on the issuer and the clearer side. The directive, and the directives of the Banking Supervision Department provided later on, refer inter alia, to time-tables for the issue of cards supporting the EMV standard and connecting terminals supporting the standard, and the mechanism of diverting responsibility from the issuer to the clearer.
3. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Management Directive No. 472 regarding clearers and clearance of debit card transactions. The Directive outlines the main rules for clearance of debit card transactions and is based, inter alia, on the regulation of this field abroad. The Directive relaxes some of the regulatory requirements that were imposed to date on credit card companies and clearers within the framework of the Proper Conduct of Banking Management Directives, while adjusting for the level of risk in these entities, which do not raise deposits from the public. The Directive includes various provisions and allows the clearer, among other things, to provide terminals to merchants under the terms included in the Directives. The directive entered into effect on June 1, 2016, excluding various clauses to which a different date of effect was set.
4. In June 2015, The Minister of Finance and the Governor of the Bank of Israel appointed a committee to expand competition in common banking and financial services extended to merchants and non-large businesses (the Shtrum Committee). The Committee was charged to make recommendations on the subject of the introduction of new players to this field, including through the separation of credit card companies from bank ownership. The Committee was also charged with the duty to remove barriers to the entry of players and the increase in competition, as aforesaid. On July 6, 2016, the Committee's recommendations were published along with the distribution of a memorandum of the Law for Increasing of Competition and Reduction of Concentration and Conflicts of Interest in the Banking Market in Israel. Pursuant to the memorandum of the law, it was recommended, inter alia and subject to the terms specified in the Memorandum of the Law: to separate the credit card companies from the major banks within three or four years from the date of publication of the law; to establish rules relating to the issuance of debit cards; to prohibit the large banks from operating the issuance of and clear debit cards themselves; to provide protection through temporary provisions for the new players, including the credit card companies; to allow the credit card companies to use the information in their possession that derives from operating

the issuance; to obligate all the banks to offer all of the credit cards and the terms of all of their issuers who requested that the Bank do so. In the framework of the discussions on the bill that took place in the Knesset's Reforms Committee, it was decided to include additional issues in the bill, including second lien, hosting of clearers and the work between clearers and consortiums. On January 23, 2017, the Knesset Plenum approved the law in a second and third reading. On January 31, 2017, the law was published in the Official Government Gazette.

5. In December 2016, the Knesset Plenum approved the proposed Economic Plan Law (Legislative Amendments for Implementation of the Economic Policy for the 2017-2018 Budget Years), 5777-2016 in a second and third reading. The draft bill included a chapter on "Increasing Competition in Retail Credit", which refers, inter alia, to regulation of the field of credit card issuances not by a banking corporation and to regulation of credit consortia. On December 29, 2016, the law was published in the Official Government Gazette.

6. In June 2016, the Banking Supervision Department published the "Outline for Establishment of a New Bank in Israel: New Policy of the Banking Supervision Department for Removal of Entry Barriers" Draft. According to the policy summary, the outline constitutes part of the measures of the Banking Supervision Department for increasing competition in the banking system in Israel and as support for the changes that are outlined, inter alia, within the framework of the "Strum Committee". The first part of the outline focuses on granting a bank license to credit card companies, and the second part focuses upon terms required for establishing a new bank from the ground up.

7. In July 2015, the plenum of the Knesset approved a first reading of the proposed Regulation of Non-Banking Loans Law, according to which, inter alia, an interest cap will be determined which will apply to all lenders in the economy, including the banking system as well as the establishing of rules pertaining to the credit extension process. In November 2015 and in February 2016, the Constitution, Law and Justice Committee held a discussion for the preparation for a second and third reading.

8. In April 2016, the Credit Data Service Law was published in the Official Government Gazette – the establishment of a system for sharing credit data and the supervisor of the system, which is intended to improve the credit data in the economy in order to increase competition in the retail credit market, increase accessibility to credit and reduce discrimination in this area. In June 2016, the Bank of Israel published a regulation regarding the saving of information for the purpose of delivering it to the credit database. The regulation specifies the data fields and the data saving format required by the information sources. According to the explanatory notes for the temporary provision, its purpose is the building of the base information that would report to the database, in a manner that ensures that when the database goes live, it has sufficient depth and scope of data that enable its operation.

9. In October 2015, the Knesset in plenum approved in a first reading the proposed Intensification of Tax Collection and Increased Enforcement Law, which is intended, inter alia, to fight black money and deepen the collection of tax, and pursuant to which, a special reporting duty will be provided for financial entities, such that they will report on a routine basis to the Tax Authority on the activity of their customers. In November 2015, the Constitution Committee decided to split the bill into two separate bills and in March 2016, the Knesset approved in a second and third reading the first part of the Prohibition of Money Laundering Law (Amendment No. 14), 5776-2016, which deals with the definition of the government's handling of money launderers. The Constitution Committee has yet to conclude its discussions regarding the second part, which deals with the reporting by financial bodies but it was clarified that the new mechanism would only deal with the reporting of private customers and not business customers. Following said Amendment No. 14, the Banking Supervision Department published a letter in November 2016 concerning preparedness for management of compliance risks in light of the establishment of tax offenses as source offenses. According to the letter, inter alia, all of the directives in the area of the prohibition of money laundering that apply to banking corporations, shall also apply from now on in relation to the commission of tax offenses by a customer. In December 2016, the Knesset Plenum approved additional amendments to the Prohibition of Money Laundering Law in a first reading, which were intended to streamline and improve the fight against money laundering and adapt the existing legislation to international standards on the issue, this in accordance with the FATCA agreement with the US

Government. In February 2017, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Management Directive No. 411 regarding Management of Risks in the Prohibition of Money Laundering and Terror Financing. The draft constitutes an alignment with the up-to-date international standards on the issue of Prohibition of Money Laundering and Terror Financing and is expected to help the State of Israel in being accepted to the FATF organization as a full member. The draft expands the existing directive on the issue and was rewritten as a risk management directive.

10. In July 2016, the Banking Supervision Department published a new Proper Conduct of Banking Management Directive regarding "Online Banking", and an amendment to the complementary directives to the abovementioned directive, including to the regulation regarding the delivery of online messages. In addition, a circular regarding “Account Types and Conditions by which the Customer’s Signature on the Agreement will not be required” was published in August 2016. The Directive regarding “Online Banking” regulates the activity of the banking corporations in communications vis-à-vis individual or small business-type customers, and enables remote control operations in a variety of banking services. Alongside the reliefs, the Directive establishes principles for the management of the risks in online banking, both in the systems and internal processes of the banking corporation and in the conduct with the customer. The Directive entered into effect in January 2017.
11. In August 2015, the Bank of Israel published an interim report regarding the “Execution Chain of Debit Card Transactions”, which includes recommendations for increasing competition, efficiency and stability in the debit card market, which are expected, according to the Bank of Israel, to remove the barriers that exist in the market and enable the entry of new players. As part of the conclusions of the report, the Bank of Israel published in July 2016 the document on “Principles and Related Measures for Development of a Protocol for Execution of a Transaction in a Debit Card and its Usage”, which presents the principles of the protocol (technological specification and structure of the message used to transfer information on a debit card transaction between individuals in the transaction’s chain of execution) and recommendations for related measures for implementation of the principles as well as publication of the terms of access to the audited payment systems.
12. In October 2016, the Bank of Israel published a statement of principles regarding “Regulation of the Payment Services”, which includes principles for regulating the payment services. The principles in the document will constitute a basis for the law memorandum on the subject. The establishment of the principles was based upon the European Directive for payment services, PSD and PSD2, while making the necessary adjustments for the local market. According to the statement of principles, one of the purposes of the Payment Services Law is the adaptation of consumer protections in the area of payment services and the establishment of terms of usage and uniform consumer protections, to the extent possible, in receipt of payment services from the various payment service providers and through the various means of payment. However, every regulator shall be authorized to establish additional directives for the entities over which he supervises in accordance with their characteristics. Entities in the financial market may choose the license that is suitable to them in accordance with their type of activity and its level of risk. The public may send its comments to the document until November 20, 2016.
13. With regard to new accounting standards and new regulations of the Banking Supervision Department in the period and in the period before their implementation, see Notes 2C and 2E to the financial statements.

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

Disclosure regarding 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 regarding regulatory initiatives and Note 18C regarding requests to approve certain claims as class actions against the Company,

An event after the balance sheet date

With regard to events after the date of the financial statements, see Note 24 to the financial statements below.

Changes in accounting policy and critical estimates

During the reported period, there were no changes in the accounting policy of the company on critical issues, except for an update of commitments to employee rights that are measured on an actuarial basis, for the streamlining outline resulting from a letter from the Banking Supervision Department regarding “Operational Streamlining of the Banking System in Israel” and in relation to the employee turnover rates. For additional details, see the chapter on Accounting Policy and Critical Estimates below as well as Note 16 in the financial statements below.

Material developments in Income and Expenses

The Company's net profit in 2016 amounted to NIS 47 million, compared with NIS 40 million in the corresponding period last year, an increase of 17.5%.

The Company's profit per share in 2016 amounted to NIS340, compared with NIS 285 in the corresponding period last year, an increase of 19.3%.

The rate of return on net profit to average capital in 2016 stood at 13.2%, compared with 12.9% in 2015.

The rate of return on profit before taxes to average capital in 2016 stood at 18.3%, compared with 17.7% in 2015.

Income and expenses

Income from credit card transactions amounted to NIS 405 million in 2016, compared with NIS 368 million in 2015, an increase of 10.1%., attributable to the following factors:

- ♦ Net income from merchants amounted to NIS 313 million, compared with NIS 294 million in 2015, an increase of 6.5%.
- ♦ Income in respect of credit-card holders amounted to NIS 92 million, compared with NIS 74 million in 2015, an increase of 24.3%.

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

Net interest income amounted to NIS 2 million in 2016, compared with NIS 1 million in 2015, an increase of 100%.

Expenses in respect of credit losses amounted to NIS 10 million in 2016, compared with NIS 6 million in 2015, an increase of 66.7%. The increase derives mainly from an increase in balances of receivables for credit cards.

Operating expenses amounted to NIS 115 million in 2016, compared with NIS 120 million in 2015, a decrease of 4.2%.

Sales and marketing expenses amounted to NIS 83 million in 2016, compared with NIS 76 million in 2015, an increase of 9.2%, 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 36 million in 2016, compared with NIS 30 million in 2015, an increase of 20.0%.

Payments to banks amounted to NIS 92 million in 2016, compared with NIS 80 million in 2015, an increase of 15.0%.

The provision for taxes on profit amounted to NIS 18 million in 2016, compared with NIS 15 million in 2015. The effective tax rate of the total operating profit before taxes in 2016 reached 27.7%, compared with 27.3% in 2015. 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 3: Operating data

Number of Credit Cards (in thousands)

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**

Number of valid credit cards as at December 31, 2015

	Active cards	Inactive cards	Total
Bank cards	335	99	434
Non-bank cards – Credit risk on the Company	135	84	219
Total	**470**	**183**	**653**

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

	For the year ended December 31	
	2016	**2015**
Bank cards	17,059	14,803
Non-bank cards – Credit risk on the Company	4,244	3,939
Total	**21,303**	**18,742**

Definitions

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

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

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

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

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

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

Definitions relevant to the information presented:

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

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

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

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

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

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

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

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

Table 4: 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 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 infrastructures

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	5	1	1	7
Expenses for acquisition or usage licenses not capitalized as assets	4	-	-	4
Outsourcing expenses	9	-	-	9
Depreciation expenses	3	* -	-	3
Other expenses	7	3	1	11
Total	**28**	**4**	**2**	**34**

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

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	-	-	-	-
Outsourcing costs	1	-	-	1

Costs of acquisition or usage licenses	-*	-	-	-*
Costs of equipment, buildings, and land	-	-	-	-
Total	**1**	**-**	**-**	**1**

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

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

* Amount lower than NIS 0.5 million.

** Includes outsourcing expenses.

(1) Including communication infrastructures

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, 2016 stood at NIS 375 million, compared with NIS 389 million at the end of 2015, a decrease of 3.6%.

Debtors' balances in respect of credit cards to businesses under the Company's responsibility as of December 31, 2016 stood at NIS 118 million, compared with NIS 109 million at the end of 2015, a decrease of 8.3%.

Credit balances to businesses under the Company’s responsibility as of December 31, 2016 stood at NIS 39 million, compared with NIS 14 million at the end of 2015, an increase of 178.6%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2016 stood at NIS 1,887 million, compared with NIS 1,779 million at the end of 2015, an increase of 6.1%.

The balance of the allowance for debtors in respect of credit cards to private persons under the Company's responsibility as of December 31, 2016 stood at NIS 12 million, compared with NIS 9 million at the end of 2015, an increase of 33.3%.

The balance of the allowance for debtors in respect of credit cards of businesses under the Company's responsibility as of December 31, 2016 stood at NIS 3 million, similar to the end of 2015.

The balance of the allowance in respect of credit risk under the guarantee of banks and others as of December 31, 2016 stood at NIS 1 million, similar to the end of 2015.

The balance of the allowance in respect of commercial credit under the Company's responsibility as of December 31, 2016 stood at NIS 0.5 million, similar to the end of 2015.

2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2016 amounted to NIS 12 million, compared with NIS 11 million at the end of 2015, an increase of 9.1%.

The balance of impaired debts as of December 31, 2016 amounted to NIS 3 million, compared with NIS 2 million at the end of 2015, an increase of 50.0%.

The balance of substandard debts as of December 31, 2016 amounted to NIS 3 million, compared with NIS 2 million at the end of 2015, an increase of 50.0%

The balance of debts under special mention as of December 31, 2016 amounted to NIS 6 million, compared with NIS 6 million at the end of 2015, a decrease of 14.3%

Other balance sheet items

Cash and deposits in banks as of December 31, 2016 amounted to NIS 22 million, compared with NIS 15 million at the end of 2015.

Other assets as of December 31, 2016 amounted to NIS 551 million, compared with NIS 549 million at the end of 2015.

Creditors in respect of credit card activity as of December 31, 2016 amounted to NIS 2,601 million, compared with NIS 2,510 million at the end of 2015. 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, 2016 amounted NIS 21 million, compared with NIS 19 million at the end of 2015.

3. Off-balance sheet credit

Balances of unutilized credit facilities under the Company's responsibility as of December 31, 2016 stood at NIS 2,249 million, compared with NIS 2,267 million at the end of 2015, a decrease of 0.8%.

Balances of unutilized credit facilities under bank guarantee as of December 31, 2016 stood at NIS 4,957 million, compared with NIS 6,765 million at the end of 2015, a decrease of 26.7%.

Other off-balance sheet items

Exposure in respect of facilities to merchants as of December 31, 2016 amounting to NIS 13 million, compared with NIS 10 million at the end of 2015, a decrease of 30.0%.

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 addition, the Company is consolidated by Bank Hapoalim to which these requirements also apply:

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

Shareholders' equity, Tier 1 capital for 2016 amounted to NIS 379 million, compared with NIS 332 million in the corresponding period last year, an increase of 14.2%.

Overall capital for 2016 amounted to NIS 398 million, compared with NIS 348 million in the corresponding period last year, an increase of 14.4%.

Risk assets in respect of credit for 2016 amounted to NIS 1,718 million, compared with NIS 1,742 million in the corresponding period last year, a decrease of 1.4%.

Risk assets in respect of market risk for 2016 amounted to NIS 11 million, compared with NIS 8 million in the corresponding period last year, an increase of 37.5%.

Risk assets in respect of operating risk for 2016 amounted to NIS 438 million, compared with NIS 411 million in the corresponding period last year, an increase of 6.6%.

The capital to risk components ratio for 2016 amounted to 18.4%, compared with 16.1% in the corresponding period last year.

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

Table 5: Capital adequacy (1)

1. Capital for capital ratio computation purposes

	December 31	
	2016	**2015**
	NIS in millions	
Tier 1 shareholders' equity and Tier 1 capital after deductions	379	332
Tier 2 capital	19	16
Total overall capital	**398**	**348**

2. Weighted balances of risk assets

Credit risk	1,718	1,742
Market risks	11	8
Operating risk	438	411
Total overall capital	**2,167**	**2,161**

3. Capital to risk elements ratio

Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio	17.5%	15.4%
Overall capital to risk elements ratio	18.4%	16.1%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department	8.0% (2)	9.0%
Minimum overall capital ratio required by the Banking Supervision Department	11.5% (2)	12.5%

(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 “Clearers and Clearance of Debit Card Transactions”, which entered into effect on June 1, 2016.

Minimal capital ratios

On May 30, 2013, the Banking Supervision Department published a circular regarding minimum capital ratios for all banking corporations and credit card companies in preparation for the implementation of the Basel III directives. Pursuant to the circular, all banking corporations and credit card companies 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 “Clearers and Clearance of Debit Card Transactions” that included relief for the clearer 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 drop 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 targets for minimum capital ratios, as specified below.

Capital Adequacy Target

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

The Company's capital adequacy targets are as follows:

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

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

Capital adequacy

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

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

Liquidity coverage ratio

On September 28, 2014, the Banking Supervision Department 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.

The Company applies the liquidity risk management policy in accordance with Proper Conduct of Banking Management Regulation mno. 342, including compliance with the minimum liquidity ratio, which is intended to ensure that the Company has sufficient high quality liquid assets within a time framework of 30 days in stress scenarios. The stress scenarios include a specific shock to the Company, a systemic shock or a combination of the two.

The Board of Directors, once a year, determines the risk tolerance in light of the management's recommendations, reflected through the determination of exposure restriction to risk and the finance strategy. The risk tolerance is determined according to the Group's strategic plans, business policy and state of the markets.

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 February 2017, after the date of balance, the Board of Directors decided to announce a dividend in the amount of NIS 10 million, subject to approval by the General Meeting.

Operating Segments

General

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

Seasonality

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

The Issuance Segment

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

Products and Services

The Company issues American Express-type credit cards, which are issued both as bank cards and as non-bank cards, which are used as means of payment for transactions and to withdraw cash, for local and international use. The Company issues a range of credit cards adapted to various sections of population, including club cards, business cards for business customers, designated purchasing cards, Platinum cards for the highest decile and Centurion cards for the highest echelons.

The Company, through Isracard, also offers various credit programs on the basis of credit plans and various all-purpose loans on the basis of the card's credit facility, a range of options for spreading payments, information services and confirmations.

Segmentation of Income from Products and Services

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

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

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

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted in the Company's designated marketing department, on a number of levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, and marketing and sales promotion, the operation of a points plan, and marketing and sales promotion – inter alia, through the preparation of wide-scale marketing campaigns, joint campaigns with leading entities in various sectors, provision of designated services for its customers, including concierge services and international programs for awarding discounting and benefits, a telemarketing service center, direct mail, salespeople, the Company's website, and more.

Within the activity of the customer clubs, the Company routinely enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services in a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include employee' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as "Hever" cards for regular army personnel and retirees, Lifestyle club and El Al Flycards.

The Company has also begun to base its activity on the presence of and communication with customers in the digital world.

As part of a broad program to improve marketing communication with customers and number of steps have been taken: Extensive year-round activity on Facebook, which was intended to connect the card-holders to the brand interactively, interactive digital activity and the launch of the "American Express" application for smartphones.

Profit and profitability – Issuance sector

The loss of the segment amounted NIS 2 million, compared with NIS 9 million in 2015, a decrease of 77.8%.

The rate of return of the loss to average capital amounted to a negative return of 0.7%, compared with 3.5% in 2015.

Development of income and expenses

Income of the segment amounted to NIS 217 million, compared with NIS 188 million in 2015, an increase of 15.4%.

Income from commissions amounted to NIS 225 million, compared with NIS 191 million in 2015, an increase of 17.8%.

Net interest income amounted to less than NIS 0.5 million, similar to 2015.

Other expenses amounted to an expense of NIS 8 million, compared with income of NIS 3 million in 2015.

Expenses of the segment, before payments to banks amounted to NIS 182 million, compared with NIS 171 million in 2015, an increase of 6.4%

Expenses of the segment, including payments to banks, amounted to NIS 220 million, compared with NIS 201 million in 2015, an increase of 9.5%.

Expenses in respect of credit losses amounted to NIS 10 million, compared with NIS 6 million in 2015. The increase derives mainly from an increase in balances of credit card receivables.

Operating expenses amounted to NIS 79 million, compared with NIS 82 million in 2015, a decrease of 3.7%.

Selling and marketing expenses amounted to NIS 73 million, compared with NIS 66 million in 2015, an increase of 10.6%.

General and administrative expenses amounted to NIS 20 million, compared with NIS 17 million in 2015, an increase of 17.6%.

Payments to banks amounted to NIS 38 million, compared with NIS 30 million in 2015, an increase of 26.7%.

The income to expenses ratio, before payments to banks, reached 83.9%, compared with 91.0% in 2015.

Loss for the segment before taxes amounted NIS 3 million, compared with a loss before taxes of NIS 13 million in 2015, a decrease of 76.9%.

The provision for tax on profit in the segment amounted to NIS 1 million, compared with NIS 4 million in 2015, a decrease of 75%.

Customers – Cardholders

Credit cards issued by the Company serve customers in various segments, including private customers, employees of corporations and overall corporate procurement (Business-to Business – B2B) – transfer of payments between businesses.

As of the date of the report, no card-holder (bank or non-bank), whose rate of total transactions conducted in the Company's credit card was 10% or more of the total transactions in the Company's credit cards in 2016.

The Clearance Segment

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

Products and services

The Company clears transactions with merchants which have executed agreements with it, executed using American Express cards. For clearance services, the Company collects mainly a merchant fee. As noted, Isracard administers and operates credit-card clearing activity on behalf of the Company. The Company also offers services, such as information regarding credits of the merchant, loans, discounting services for credit-card sales slips, advances and early payment services, flexible crediting dates and options for payments in installments, joint advertising campaigns, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants are allocated to the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, 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, clearing of sales slips, and production and delivery of credit statements. For details regarding the segmentation of income from credit-card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Marketing and Sales

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

The main objectives of marketing activity in this segment are: 1) to recruit new merchants and benefit-granting merchants, and to expand the Company's operations through new business activities, including credit granting; (2) to strengthen the Company's image; and (3) to retain merchants as customers by forming closer relationships with them and by providing marketing, financial, and operational services, including information regarding past and future credits of the merchant and other segmented information, advertising campaigns and unique marketing information, benefits, and programs at a high level of service.

The Company operates a website at the address: www.americanexpress.co.il, designed for merchants that have clearing agreements with it. Among others. The website provides information, including about products and services offered to merchants, the Company's rates, special offers, and benefits.

Profit and profitability – Issuance sector

The net profit of the segment amounted to NIS 49 million, similar to 2015.

The rate of return of the net profit to average capital amounted to 83.8%, compared with a rate of return of 92.5% in 2015.

Development of income and expenses

The segment's income amounted to NIS 184 million, compared with NIS 179 million in 2015, an increase of 2.8%.

Income from fees amounted to NIS 180 million, compared with NIS 177 million in 2015, an increase of 1.7%.

Net interest income amounted to NIS 2 million, compared with NIS 1 million in 2015, an increase of 100%.

Other income amounted to NIS 2 million, compared with an income of NIS 1 million in 2015, an increase of 100%.

Expenses of the segment before payments to banks amounted to NIS 62 million, compared with NIS 61 million in 2015, an increase of 1.6%.

Expenses of the segment including payments to banks amounted to NIS 116 million, compared with NIS 111 million in 2015, an increase of 4.5%.

Expense (Income) in respect of credit losses amounted to less than NIS 0.5 million, compared with an income in an amount lower than NIS 0.5 million in 2015.

Operating expenses amounted to NIS 36 million, compared with NIS 38 million in 2015, a decrease of 5.3%.

Sales and marketing expenses amounted to NIS 10 million, similar to 2015.

General and administrative expenses amounted to NIS 16 million in 2015, compared with NIS 13 million in 2015, an increase of 23.1%.

Payments to banks amounted to NIS 54 million, compared with NIS 50 million in 2014, an increase of 8.0%.

The ratio of expenses to income before payments to banks reached 33.7%, compared with 34.1% in 2015.

Profit before tax amounted to NIS 68 million, similar to 2015.**The provision for taxes on profit** amounted to NIS 19 million, similar to 2015.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries. As at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2016.

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, which are mainly 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, and the consumer price index.

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 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.

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 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 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 Group companies 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 Group companies are exposed and will not suffice with providing a retrospective response to developments and events.
- Decision-makers on the subject of risk management will operate with an overall vision of the Company's best interests and not with partial-functional vision.

- The risks to which the Company is exposed will be managed while maintaining a separation between the risk-taking lines of business and the independent risk management function under the responsibility of the Chief Risk Officer (including the Risk Management, Compliance and Prohibition of Money Laundering department) and Internal Audit.
- The Company will fulfill continuous processes for identification, assessment and supervision of quantifiable and non-quantifiable material risks to which it is exposed, in order to ensure at any time that the material risks which it faces are identified and managed.
- For each of the material risks to which the Company is exposed a senior office-holder is appointed, at the status of a management member, who bears accountability (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 Group companies' risk management concept.

Use of stress scenario tests

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

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

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

The main uses of stress tests are:

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

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

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

Credit risk

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

Credit risk is one of the risks which is managed, monitored and controlled in the Company, as required by the nature of its activity as a company engaged in the provision of credit. The credit risk management process assists the Company to view the risk according to the mix of products 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 rings of control. The concept guiding the credit risk management in the Company is that the risk-taker is directly responsible for managing the risk. The Chief Risk Officer is an independent factor. However, his responsibility does not make redundant the responsibility of the Credit and Finance Section for exercising control in relation to the risks under its responsibility, through the Credit Control and Operations Department, which constitutes a control factor exercising overall control in the credit risk management process as part of the first ring of control.

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

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

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

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

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

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

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

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

Main 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) model for new customers;

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

SME (small-medium enterprise) model – a model for corporate customers.

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

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

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

Credit policy

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

The credit policy is adapted to Proper Conduct of Banking Management 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 6 - Problematic credit risk and nonperforming assets

	Balance as at December 31, 2016	Balance as at December 31, 2015
	NIS millions	
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	3	2
Inferior credit risk	3	2
Credit risk under special supervisions	6	7
Total problematic credit risk	**12**	**11**
Of which: Unimpaired debts in arrears of 90 days or more		
2. Nonperforming assets (2)		
Impaired debts	3	2
Total nonperforming assets (2)	3	2

(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 7 – Movement in impaired (1) debt balances individually examined

	For year ended 31 December	
	2016	2015
	NIS (millions)	
Balance of impaired debts as of beginning of period	**-***	**1**
Balance of debts classified as impaired during the period, net	**-***	**-***
Debts re-classified as non-impaired	-	-
Accounting write-offs, net	(-*)	(1)
Balance of debts classified as impaired during the period, net (2)	(-*)	(-*)
Balance of impaired debts as of end of period	**-***	**-***

* 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 8 – Risk and credit metrics

		December 31	
		2016	**2015**
		In percent	
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	0.12	0.09
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	0.09
D.	Credit loss expenses as a percentage of the average balance of debtors in respect of credit card activity	0.42	0.29
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	0.30	0.19
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	0.65	0.56
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	43.75	30.77

* 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", there is no group of borrowers which exceeds 15% of the Company's capital (as defined in Regulation no. 313) as of December 31, 2016.

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 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 June 2016. 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 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 9 - Fair value of financial instruments of the Company, excluding non-monetary items

	December 31, 2016

	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	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**

	December 31, 2015				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	2,758	11	69	6	2,844
Financial liabilities	2,437	11	61	5	2,514
Net fair value of financial instruments	**321**	**(-*)**	**8**	**1**	**330**

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

	December 31, 2016						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	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)

	December 31, 2015						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	323	(-*)	8	1	332	2	0.6
Immediate parallel increase of 0.1%	321	(-*)	8	1	330	-*	-
Immediate parallel decrease of 1%	319	(-*)	8	1	328	(2)	(0.6)

* 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 11 – Exposure of the Company to changes in interest rates as of December 31, 2016

Reported amounts

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**years**
Unlinked Israeli currency										
Financial assets	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 11 – Exposure of the Company to changes in interest rates as of December 31, 2016 (contd.)
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets	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.

Table 11 – Exposure of the Company to changes in interest rates as of December 31, 2015
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Unlinked Israeli currency										
Financial assets	1,853	439	407	61	-	-	(2)	2,758	1.20	0.14
Total fair value	1,382	496	431	102	19	-	7	2,437	1.44	0.22
Net financial instruments										
Exposure to changes in interest rates in the segment	471	(57)	(24)	(41)	(19)	-	(9)	321		
Accumulated exposure in the segment	471	414	390	349	330	330	321			
Linked Israeli currency										
Financial assets	2	4	5	-*	-	-	-	11	0.35	0.27
Financial liabilities	2	4	5	-*	-	-	-	11	0.35	0.26
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 11 – Exposure of the Company to changes in interest rates as of December 31, 2015
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets	80	(6)	1	-	-	-	-	75	0.36	0.03
Total fair value	59	4	2	-	-	1	-	66	1.75	0.19
Net financial instruments										
Exposure to changes in interest rates in the segment	21	(10)	(1)	-	-	(1)	-	9		
Accumulated exposure in the segment	21	11	10	10	9	9				
Overall exposure to interest rate changes										
Financial assets	1,935	437	413	61	-	-	(2)	2,844	1.19	0.13
Financial liabilities	1,443	504	438	102	19	1	7	2,514	1.44	0.22
Net financial instruments										
Exposure to changes in interest rates in the segment	492	(67)	(25)	(41)	(19)	(1)	(9)	330		
Accumulated exposure in the segment	492	425	400	359	340	339	330			

* Amount lower than NIS 0.5 million.

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 small 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 June 2016. 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 credit from banks and cash flows from operating activities.

In order to retain the variety of the sources of finance, the Company is meticulous in varying the utilization of the means of finance through taking use of various sources of finance each time, as applicable. In addition, the Company is pursuing a line of liquidity from financial institutions.

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 all Group companies.

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 expected regulations and monitoring changes in relation to the reasonableness of the materialization of the risk.

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

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

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

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

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

Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

- The degree of exposure to the risk – for example, the amount of a claim submitted against the Company, the probability for the materialization of the risk – the likelihood of the success of the claim against the Company.
- Once a quarter, a quantitative examination of the loss expected in respect of the realization of legal risk is made, against the levels of the warning thresholds determined. This examination enables control to be exercised over the management of the Company's activity in the various areas in respect of which legal claims have been submitted.

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

Reputational risk

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

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

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

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

In order to mitigate the damage as a result of the realization of reputational risks, monitoring 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 risk

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

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

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

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

The management, via the 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 12 – 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	**Low-medium**	**Medium**	**High**
	Financial risks				
1.	Credit risk		✓		
1.1	Risk in respect of quality of borrowers and/or collateral		✓		
1.2	Risk in respect of sector concentration		✓		
1.3	Risk in respect of concentration of borrowers / group of borrowers		✓		
2.	Market risk	✓			
2.1	Interest risk	✓			
2.2	Inflation risk / exchange rate risk	✓			
3	Liquidity risk and finance		✓		
	Operational and legal risks				
4.	Operational risk			✓	
5.	Legal risk			✓	
	Other risks				
6.	Reputational risk		✓		
7.	Regulatory risk			✓	
8.	Strategic risk			✓	
9.	Data security risk and cyber events			✓	
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 effect period will be finally and absolutely revoked and may no longer be used. The vaidity of the points in existence as of 31 December 2016 is three years following such date.

Allowance for Credit Losses

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

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

Contingent Liabilities

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

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

Employee rights

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, pensiony 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:

- The primary amount is included in the actuary opinion submitted to Bank Hapoalim, which also includes Bank Hapoalim employees lent to the Company. This opinion is enclosed to Bank Hapoalim's financial statements.

- The amounts determined according to actuary opinion 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 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, 2016, 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.

Ronen Stein	**Dr. Ron Weksler**
Chairperson of the Board of Directors	Chief Executive Officer

Tel Aviv, February 26, 2017

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 2016 (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 26, 2017.

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 2016 (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 26, 2017.

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, 2016, 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, 2016, 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, 2016 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 84. 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, 2016.

Ronen Stein	**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 26, 2017.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2016

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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, 2016, 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 audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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, 2016, 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 balance sheets of the Company as at December 31, 2016 and 2015, and the statements of profit and loss, statements of changes in shareholders' equity, and statements of cash flows for each of the years in the three-year period ended on December 31, 2016. Our report dated February 26, 2017, 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 regarding petitions to approve certain claims as class actions against the Company.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel Aviv, February 26, 2017

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, 2016 and 2015, 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, 2016. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Company as at December 31, 2016 and 2015, and the results of operations, changes in shareholders' equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2016, 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 that stated in Note 18.B.2. on regulatory initiatives and in Note 18.C regarding petitions to approve certain claims as class actions against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2016, 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 26, 2017, 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 26, 2017

Statements of Profit and Loss

In NIS millions

	Note	For the year ended December 31 2016	2015	2014
Income				
From credit-card transactions	3	405	368	332
Net interest income	4	2	1	3
Other income (expenses)		(6)	(2)	3
Total income		401	367	338
Expenses				
In respect of credit losses	10B	10	6	1
Operating expenses	5	115	120	97
Sales and marketing expenses	6	83	76	69
General and administrative expenses	7	36	30	28
Payments to banks	18F	92	80	82
Total expenses		336	312	277
Profit before taxes		65	55	61
Provision for taxes on the profit	8	18	15	16
Net income		**47**	**40**	**45**
Basic net profit per common share (in NIS)		**340**	**285**	**324**
Number of common shares used in calculation		139,326	139,326	139,326

Ronen Stein	**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 26, 2017

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

Statements of Comprehensive Income

In NIS millions

	For the year ended December 31		
	2016	2015	2014
Net income	**47**	**40**	**45**
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**	**40**	**45**

* 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 2016	2015
Assets			
Cash		22	15
Debtors in respect of credit-card activity	10	2,443	2,314
Allowance for credit losses		(16)	(13)
Debtors in respect of credit-card activity, net		2,427	2,301
Computers and equipment	11	2	--*
Other assets	12	551	549
Total assets		**3,002**	**2,865**
Liabilities			
Credit from banking corporations	13	1	4
Creditors in respect of credit-card activity	14	2,601	2,510
Other liabilities	15, 18	21	19
Total liabilities		**2,623**	**2,533**
Contingent liabilities and special agreements	18		
Equity	17	379	332
Total liabilities and capital		**3,002**	**2,865**

* Amount less than NIS 0.5 million.

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

Statements of Changes in Equity

In NIS millions

	Capital reserves						
	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Cumulative other comprehensive loss	Retained earnings	Total capital
Balance as at Dec. 31, 2013	**--***	**35**	**--***	**35**	**-**	**212**	**247**
Net income for the year	-	-	-	-	-	45	45
Benefits received from controlling shareholder	-	-	--*	-*	-	-	-*
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**

* 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		
	2016	**2015**	**2014**
Cash flows from operating activities			
Net income for the year	47	40	45
Adjustments:			
Depreciation of computers and equipment	-*	3	1
Expenses in respect of credit losses	10	6	1
Deferred taxes, net	(1)	(-*)	-*
Benefit from a transaction with a controlling party	-*	-*	-*
Adjustments for exchange rate differences	2	(-*)	(1)
Changes in current assets			
Change in credit to cardholders and merchants, net	(25)	17	(1)
Change in other debtors in respect of credit-card activity, net	(112)	(373)	(66)
Change in other assets, net	(1)	(100)	(11)
Changes in current liabilities			
Change in short-term credit from banking corporations, net	(3)	2	(1)
Change in creditors in respect of credit-card activity, net	91	402	91
Change in other liabilities, net	2	4	1
Net cash from operating activities	10	1	59

* 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		
	2016	**2015**	**2014**
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			
Repayment of subordinated notes	-	-	(56)
Net cash from financing activity	-	-	(56)
Increase in cash	9	-*	2
Balance of cash at beginning of year	15	15	12
Effect of changes in exchange rates on cash balances	(2)	-*	1
Balance of cash at end of year	22	15	15
Interest and taxes paid and/or received			
Interest received	2	2	4
Interest paid	-*	-*	1
Taxes paid on income	17	16	16
Taxes received on income	-*	1	-

* Amount less than NIS 0.5 million.

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

Notes to the Financial Statements

Note 1 – General

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 18E below).

The annual financial statements were approved for publication by the Board of Directors of the Company on February 26, 2017

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. These rules are established by the banking supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), Codification, of the accounting standards of the Financial Standards Board in the United States, the hierarchy of generally accepted accounting principles. In addition to this and in accordance with the determination by the Banking Supervision Department, despite the hierarchy that was set in FAS 168, it has been clarified that any position that has been delivered to the public by the banking supervision agencies in the United States or by a team from the banking supervision agencies in the United States in respect of the manner of the implementation of generally accepted accounting principles in the United States, is a generally accepted accounting principle in banks in the United States.

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

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 No. 23 and 36 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.

B. Basis for Preparation of the Financial Statements

1. Reporting Principles

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

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

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

5. Changes in estimates

In 2016, 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, 2016, the Company has implemented the accounting standards and new directives set out below:

(1) Reporting in accordance with US GAAP regarding intangible assets.

(2) Troubled debt restructuring.

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

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

On October 22, 2015, a circular was published on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP on Intangible Assets". Pursuant to the circular, banking corporations and credit card companies are to implement US GAAP on the subject of intangible assets and inter alia, the presentation, measurement and disclosure principles that have been determined in the directives of Topic 350 in the Codification regarding "intangible assets – goodwill and others", including the principles in connection with impairment in value of internal-use software.

The provisions detailed in the circular are effective as from January 1, 2016 and thereafter. The implementation of the circular has not had an impact on the financial statements.

2. Troubled debt restructuring

On May 22, 2016, the Banking Supervision Department published a circular on the subject of the troubled debt restructurings. The circular updates the Public Reporting Directives in light of update number 2011-02 to the Codification, which was published by the FASB, and in light of new directives from the regulatory authorities in the United States. In accordance with the circular, directives have been added regarding debts that go through a subsequent restructuring process, in particular, it has been determined that in certain circumstances, where a troubled debt restructuring is conducted and afterwards the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is no longer required to relate to the debt as debt that has been through a troubled debt restructuring if the two following conditions are met:

a. The debtor is no longer in financial difficulties at the time of the subsequent restructuring.

b. Pursuant to the terms of the subsequent restructuring, the banking corporation has not granted a concession to the debtor.

The revisions in the circular are effective for restructurings that are performed or renewed as from December 31, 2016 and thereafter. The implementation of this directive has not had an impact on the financial statements.

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 (2012 base = 100), and the rates of change therein:

	December 31		
	2016	**2015**	**2014**
Consumer price index (in points)	100.9	101.1	102.1
United States dollar exchange rate (in NIS per 1 USD)	3.845	3.902	3.889
Euro (in NIS per 1 Euro)	4.044	4.247	4.725

	Percent change in the year ended December 31		
	2016	**2015**	**2014**
Consumer price index	(0.2)	(1.0)	(0.2)
USD exchange rate	(1.5)	0.3	12.0
Euro rate	(4.8)	(10.1)	(1.2)

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 Policies 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.

(3) Income from card fees and deferred-debit fees collected from cardholders are recorded in the statement of profit and loss on a cumulative basis.

(4) Interest income and expenses are included on an accrual basis, with the exception of interest on amounts in arrears, which is recognized in the statement of profit and loss based on actual collection.

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

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. As from 2016, inter alia, the directives relating to the treatment of troubled debt restructurings and certain directives relating to the manner of the testing of debts have been revised.

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. The Company applies rules according to which the balance of the debt in the Company's books includes the component of interest accrued before the classification of the debt as impaired.

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.

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.

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

Disclosure Requirements

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

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

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. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

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

Note 2 – Significant Accounting Policies (cont.)

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

4. Establishing the Fair Value of Financial Instruments (Cont.)

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

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

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

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

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

Note 2 – Significant Accounting Policies (cont.)

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

8. Fixed Assets

Recognition and Measurement

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

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

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

Subsequent Costs

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

Depreciation

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

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

Note 2 – 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

Software Costs

Software acquired by the Company is recognized as an asset and measured at cost, with the deduction of amortization and accumulated losses from impairment.

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

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.

Impairment of In-House Software Development Costs

Testing for impairment of Assets, tests of impairment of in-house software development costs shall also 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;

Note 2 – Significant Accounting Policies (cont.)

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

10. Impairment of Non-Financial Assets (Cont.)

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

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

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

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

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. The period of validity of outstanding points as of December 31, 2016 is three years from that date.

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 recognizes the net pension cost for a period in accordance with the contribution that is required for that period. 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

Note 2 – Significant Accounting Policies (cont.)

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

12. Employee Rights (Cont.)

(New Tables for Insurance Companies). The rate of future salary increases is estimated by Management. The service, cost, interest cost, yield on plan assets, amortization of the net actuarial gain or loss and amortization of the cost or credit for past service 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, which do not derive from a change in the discount rate, 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 during 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. For further information regarding employee rights, including the non-recurring efficiency program, see Note 16 below.

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

Note 2 – Significant Accounting Policies (cont.)

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

13. Share-Based Payment Transactions (Cont.)

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.

The fair value at the grant date of a share-based payment for services is charged to selling and marketing expenses with a corresponding increase in equity, over the term of the service agreement.

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.

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.

15. Expenses for Taxes on Income

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

Current Taxes

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

Note 2 – Significant Accounting Policies (cont.)

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

15. Expenses for Taxes on Income (Cont.)

Offsetting Current Tax Assets and Liabilities

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

Deferred Taxes

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

Deferred tax assets in respect of losses carried forward, tax credits, and deductible temporary differences, when it is more likely than not that taxable income against which they can be used will exist in the future. Deferred-tax assets are examined at each reporting date, and are written down if the relevant tax benefits are not expected to materialize.

16. Capitalization of Borrowing Costs

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

17. 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.

Note 2 – Significant Accounting Policies (cont.)

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

18. 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.

19. 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.

20. 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".

21. 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.)

21. 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 2015, 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.

On initial application, a choice can be made between the alternative of applying retrospective restatement of comparative figures and the alternative of a prospective application while recording the accumulated effect on equity at the time of initial application.

The new Standard does not apply, inter alia, 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.

The Company plans to implement the provisions of the new directive as from the first quarter of 2018. The Company's preparations in advance of the implementation of the provisions include, inter alia, the mapping of the revenues to which the new standard applies and the examination of contracts with customers. Although the Company has not yet identified a significant change in the timing of the recognition of revenue, the review of the impacts is still in progress, and the Company is continuing to examine the possible implications of the implementation of the new directives, including the manner of the presentation of certain expenses (as an expense or as a reduction of revenues).

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.)

2. Adoption of 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 "Topics in foreign currency – taxes on income".

These directives will replace the directives existing in the Public Reporting Directives based primarily on the International Standard on the subject of taxes on income (IAS 12).

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 updates the manner of the initial implementation of the new directive prescribed in the circular of October 22, 2015. Pursuant to the circular, there is a requirement to implement the new principles as from January 1, 2017. At the time of the initial implementation, there is a requirement to operate in accordance with the transition provisions that were set in the American standards, including the retrospective correction of the comparative figures, if necessary. The directives, which have been determined pursuant to the circular are effective as from January 1, 2017 and thereafter. In the Company's assessment, the implementation of the circular is not expected to have a significant impact on the financial statements.

3. 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. At the time of initial implementation, it is required to act in accordance with the transition provisions that have been set on those topics in the US standards, mutatis mutandis, including retrospective amendment of comparative figures if this is required under the US standards on those issues. 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

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. 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 (Cont.)

Furthermore, International Accounting Standard 29 regarding "Financial reporting in hyperinflationary economies", as adopted in the Public Reporting Directives, is not to be implemented as from the time that the circular becomes effective. It should be clarified that there is no change in the time at which the adjustment of financial statements of banking corporations and credit card companies for inflation was discontinued and that financial statements are to be prepared on the basis of reported amounts, unless it is stated otherwise in accordance with the Public Reporting Directives.

In the Company's assessment, the impact of the adoption of the above directives on the financial statements is not expected to be material.

4. Update regarding a new standard on the subject of share-based payment

On March 30, 2016, the Financial Accounting Standards Board (hereinafter: The **"FASB**") published Update number 2016 – 09 to the Codification, which constitutes a revision to the provisions of ASC 718 on the subject of "Share-based payment" (hereinafter: "**The revision**"). The substance of the revision is to simplify various aspects of the accounting treatment of share-based payments.

This change is required to be implemented prospectively. In the Company's assessment, the impact of the adoption of the abovementioned directives on the financial statements is not expected to be material.

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

On November 1, 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 updates the Public Reporting Requirements and adopts generally accepted accounting principles in the United States on the following issues:

- 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".

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.)

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

For these issues, the directives that have been determined in accordance with the circular are effective as from January 1, 2018 and thereafter.

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. The Company has not yet started to examine the impact of the circular on its financial statements.

Note 3 – Income from Credit-Card Transactions

In NIS millions

	For the year ended December 31		
	2016	**2015**	**2014**
Income from merchants:			
Merchant fees	338	319	297
Others	1	-*	1
Total gross income from merchants	339	319	298
Less fees to other issuers	(26)	(25)	(23)
Total net income from merchants	**313**	**294**	**275**
Income in respect of credit-card holders:			
Issuer fees	24	19	14
Service fees	41	37	34
Fees from transactions abroad	27	18	9
Total income in respect of credit-card holders	**92**	**74**	**57**
Total income from credit-card transactions	**405**	**368**	**332**

* Amount less than NIS 0.5 million.

Note 4 – Net Interest Income

In NIS millions

	For the year ended December 31		
	2016	**2015**	**2014**
A. Interest income:			
From credit to individuals	-*	-*	-*
From commercial credit	2	1	1
From deposits with banks	-*	-*	2
From other assets	-*	-*	1
Total in respect of assets	**2**	**1**	**4**
B. Interest expenses:			
To banking corporations	(-*)	(-*)	(-*)
On notes	-	-	(1)
Total in respect of liabilities	**(-*)**	**(-*)**	**(1)**
Total net interest income	**2**	**1**	**3**

* Amount less than NIS 0.5 million.

Note 5 – Operating Expenses

In NIS millions

	For the year ended December 31		
	2016	**2015**	**2014**
Wages and related expenses	23	27	20
Data processing and computer maintenance	13	15	13
Automatic Bank Services (ABS)	2	2	2
Royalties to international organization	50	44	37
Amortization and depreciation	-*	3	1
Communications	1	1	1
Production and delivery	17	17	14
Damages from abuse of credit cards	1	1	1
Rent and building maintenance	6	6	6
Others	2	4	2
Total operating expenses	**115**	**120**	**97**

* Amount less than NIS 0.5 million.

Note 6 – Sales and Marketing Expenses

In NIS millions

	For the year ended December 31		
	2016	**2015**	**2014**
Wages and related expenses	12	12	12
Advertising	4	3	4
Customer retention and recruitment	10	*11	*15
Gift campaigns for credit-card holders	42	*38	*28
Club management fees	13	10	7
Others	2	2	3
Total sales and marketing expenses	**83**	**76**	**69**

* Reclassified.

Note 7 – General and Administrative Expenses

In NIS millions

	For the year ended December 31		
	2016	2015	2014
Wages and related expenses	4	3	3
Insurance	-*	-*	1
Payments to Isracard(1)	27	23	20
Others	5	4	4
Total general and administrative expenses	**36**	**30**	**28**

* Amount less than NIS 0.5 million.

(1) See Note 18.E below.

Note 8 – Provision for Taxes on the Profit

In NIS millions

1. Composition:

	For the year ended December 31		
	2016	2015	2014
Current taxes for the accounting year	19	15	16
Deferred taxes for the accounting year	(1)	(-*)	-*
Current taxes for previous years	-*	(-)	-
Provision for taxes on income	**18**	**15**	**16**

* 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		
	2016	2015	2014
Tax rate applicable to the Company in Israel	25%	26.5%	26.5%
Tax amount based on statutory rate	16	15	16
Change in balance of deferred taxes due to changes in tax rates	2	-	-*
Provision for taxes on income	**18**	**15**	**16**

* Amount less than NIS 0.5 million.

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

In NIS millions

3. 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.

4. Deferred tax balances:

	Deferred taxes receivable for the year ended December 31	
	2016	**2015**
From allowance for credit losses	8	8
From benefits for employees	1	-*
Total	**9**	**8**

* Amount less than NIS 0.5 million.

5. Changes in tax rates

Companies Tax

Rates of corporation tax relevant to the Bank for 2014-2016 are as follows:

2014: 26.5%

2015: 26.5%

2016: 25%

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 25%, the deferred tax balances as of January 4, 2016 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.

As a result of the lowering of the tax rate to 23% in two rounds, the deferred tax balances as of December 31, 2016 have been calculated in accordance with the new tax rates as determined in the Economic Efficiency Law (Amendments to legislation of the achievement of the budget targets for the 2017 and 2018 budget years), in accordance with the tax rate that is expected to apply at the time of the reversal.

The impact of the changes that are detailed above on the financial statements as of December 31, 2016, is 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 December 31, 2014	**-**	**-**
Net change during the period	(-*)	(-*)
Balance as at December 31, 2015	**(-*)**	**(-*)**
Net change during the period	(-*)	(-*)
Balance as at December 31, 2016	**(-*)**	**(-*)**

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

	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company						
Employee benefits (1)						
Net actuarial loss in the year	(-*)	-*	(-*)	(-*)	-*	(-*)
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 2016		December 31	
	Average annual interest rate		Consolidated	
			December 31	
	On daily balance	On transactions in the last month	2016	2015
	%	%	In NIS millions	
Credit risk not under bank guarantee				
Individuals (1)			**375**	**389**
Of which: debtors in respect of credit cards (2)	-	-	375	389
Of which: credit			-	-
Commercial			**157**	**123**
Of which: debtors in respect of credit cards (2)	-	-	118	109
Of which: credit (2) (3)	2.4	2.5	39	14
Total credit risk not under bank guarantee			**532**	**512**
Credit risk under bank and other guarantee				
Debtors in respect of credit cards	-	-	1,887	1,779
International credit-card organization			20	18
Income receivable			3	3
Others			1	2
Total debtors in respect of credit-card activity			**2,443**	**2,314**

(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 39 million (December 31, 2015 – NIS 14 million). This amount includes advance payments to merchants in the amount of NIS 36 million (December 31, 2015 – NIS 13 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, 2016					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee (2)	Total
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit(3)		
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				Credit risk under bank and other guarantee [2]	Total
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]		
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

Allowance for credit losses (cont.)

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

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]	Credit risk under bank and other guarantee [2]	Total
Balance of allowance for credit losses as at 31.12.2013	11	-	1	1	1	14
Expenses (income) in respect of credit losses	1	-	1	(1)	-*	1
Charge-offs	(3)	-	-*	(-*)	-	(3)
Recovery of debts charged off in previous years	2	-	-*	-[4]	-	2
Net charge-offs	**(1)**	**-**	**-***	**(-*)**	**-**	**(1)**
Balance of allowance for credit losses as at 31.12.2014**	**11**	**-**	**2**	**-***	**1**	**14**
**** Of which:**						
In respect of off-balance-sheet credit instruments	3	-	-*	-*	-*	3
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	1	1

* 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, 2016					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[3]	Credit risk under bank and other guarantee [2]	Total
Recorded debt balance of debts						
Examined on an individual basis	-*	-	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.

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, 2015					
	Credit risk not under bank guarantee					
	Individuals		Commercial			
	Debtors in respect of credit cards	Credit	Debtors in respect of credit cards	Credit[(3)]	Credit risk under bank and other guarantee [(2)]	Total
Recorded debt balance of debts						
Examined on an individual basis	-*	-	49	7	-	56
Examined on a collective basis	389	-	60	7	2,348	2,804
Total debts	**389**	**-**	**109**	**14**	**2,348**	**2,860**
Allowance for credit losses in respect of debts						
Examined on an individual basis	-*	-	1	-*	-	1
Examined on a collective basis	9	-	2	-*	1	12
Total allowance for credit losses	**9**	**-**	**3**	**-***	**1**	**13**

* 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, 2016					
		Problematic[2]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [4]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	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**

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

	December 31, 2015					
		Problematic[2]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [4]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	382	6	1	389	-	2
Credit	-	-	-	-	-	-
Commercial						
Debtors in respect of credit cards	105	3	1	109	-	-*
Credit	14	-*	-*	14	-	-*
Debts under bank and other guarantee (5)	**2,348**	**-**	**-**	**2,348**	**-**	**-**
Total	**2,849**[6]	**9**	**2**	**2,860**	**-**	**2**

* 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 2,984 million (December 31, 2015 – NIS 2,843 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, 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	**-***	**-***	**-**	**-***	**-***

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, 2015				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	-*	-*	1	1	1
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	-*	-*	1	1	1
Credit	-*	-*	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**	**-**	**-**
Total**	*****	*****	**2**	**2**	**2**
** 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		
	2016	2015	2014
Debts not under bank guarantee			
Private individuals			
Debtors in respect of credit cards	-*	1	2
Credit	-	-	-
Commercial			
Debtors in respect of credit cards	-*	-*	-*
Credit	-*	-*	-*
Debts under bank and other guarantee (4)	**-**	**-**	**-**
Total	*****	**1**	**2**

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	
	2016	**2015**
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, 2016				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	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**	**-***

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, 2015				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	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**	*****

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(2) (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring (cont.)

	For the year ended December 31, 2014				
	Debt restructured during the reporting period (2)			Failed debt restructuring**	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	355	2	2	58	-*
Credit	-	-	-	-	-
Commercial					
Debtors in respect of credit cards	24	-*	-*	4	-*
Credit	7	-*	-*	-	-
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**386**	**2**	**2**	**62**	**-***

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) 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, 2016			
		Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	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 10A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (Cont.)

	December 31, 2015			
		Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	321,992	392	375	108
Borrower balances over 5 and up to 10	127,000	465	400	446
Borrower balances over 10 and up to 15	66,758	332	248	500
Borrower balances over 15 and up to 20	29,102	220	154	288
Borrower balances over 20 and up to 30	26,760	257	169	391
Borrower balances over 30 and up to 40	9,270	137	90	186
Borrower balances over 40 and up to 80	7,027	190	141	171
Borrower balances over 80 and up to 150	1,389	89	73	54
Borrower balances over 150 and up to 300	478	62	52	33
Borrower balances over 300 and up to 600	147	34	24	25
Borrower balances over 600 and up to 1,200	53	28	18	15
Borrower balances over 1,200 and up to 2,000	13	14	7	6
Borrower balances over 2,000 and up to 4,000	15	25	14	15
Borrower balances over 4,000 and up to 8,000	6	22	1	17
Borrower balances over 8,000 and up to 20,000	4	42	13	22
Borrower balances over 20,000 and up to 40,000	-	-	-	-
Total	590,014	2,309	1,779	2,277
Income receivable and others	-	5	-	-
Total	**590,014**	**2,314**	**1,779**	**2,277**

(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, 2015	1	1	7	4	13
Additions	-	-	2	-	2
As at December 31, 2016	**1**	**1**	**9**	**4**	**15**
Accrued depreciation:					
As at December 31, 2015	1	1	7	4	13
Additions	-*	-*	-*	-	-*
As at December 31, 2016	**1**	**1**	**7**	**4**	**13**
Depreciated balance as at December 31, 2016	**-***	**-***	**2**	**-**	**2**
Depreciated balance as at December 31, 2015	*	-*	-*	-	*
Weighted average depreciation rate in % in 2016	25.0	9.9	25.0	-	
Weighted average depreciation rate in % in 2015	25.0	9.9	25.0	-	

* Amount less than NIS 0.5 million.

(1) Includes capitalized software costs, in an amount of NIS 2 million in 2016, compared to NIS 1 million in 2015..

Note 12 – Other Assets

In NIS millions

	December 31	
	2016	2015
Deferred taxes receivable, net (see Note 8)	9	8
Surplus of advance income-tax payments over current provisions	-*	1
Other debtors and debit balances:		
Prepaid expenses	6	7
Related companies*	535	531
Others	1	2
Total other debtors and debit balances	542	540
Total other assets	**551**	**549**

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

Note 13 – Credit from Banking Corporations

In NIS millions

	As at December 31, 2016		As at December 31	
	Average annual interest rate		2016	2015
	For daily balance	For transactions in the last month		
	%	%		
Credit in current debit accounts	**0.63**	**0.51**	**1**	**4**

Note 14 – Creditors in Respect of Credit-Card Activity

In NIS millions

	December 31	
	2016	2015
Merchants (1)	2,471	2,393
Prepaid income	10	5
Provision for loyalty program	77	75
Expenses payable	16	13
Others	27	24
Total creditors in respect of credit-card activity	**2,601**	**2,510**

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 96 million as at December 31, 2016 (December 31, 2015 - NIS 80 million).

Note 15 – Other Liabilities

In NIS millions

	December 31	
	2016	2015
Surplus reserves over provision for employee rights (see Note 8)	**2**	**2**
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	2	-*
Suppliers of services and equipment	7	6
Expenses payable	4	4
Institutions	3	4
Allowance for credit losses in respect of off-balance-sheet liabilities	3	3
Others	-*	-*
Total other creditors and credit balances	19	17
Total other liabilities	**21**	**19**

* 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 2016	December 31 2015
Early retirement		
Amount of liability	1	1
Fair value of plan assets	-	-
Surplus liability over plan assets**	**1**	**1**
Grant for non-utilization of sick days		
Amount of liability	1	1
Fair value of plan assets	-	-
Surplus liability over plan assets**	**1**	**1**
Other benefits at end of employment and post-employment		
Amount of liability	-*	-*
Fair value of plan assets	-	-
Surplus liability over plan assets**	**-***	**-***
Total	**2**	**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	
	2016	2015
	Bank employees on loan	
Commitment in respect of forecast benefit at beginning of period	**2**	**2**
Service cost	-*	-*
Interest cost	-*	-*
Actuarial loss (profit)	(-*)	(-*)
Commitment in respect of forecast benefit at end of period	**2**	**2**
Commitment in respect of cumulative benefit at end of period	**2**	**2**

* Amount less than NIS 0.5 million.

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	
	2016	**2015**
	Bank employees on loan	
Amounts recognized in "Other Liabilities"	2	2
Net liabilities recognized at end of the period	**2**	**2**

c. Amounts recognized in cumulative other comprehensive loss, before effect of tax

	For the year ended December 31	
	2016	**2015**
	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	
	2016	**2015**
	Bank employees on loan	
Commitment in respect of forecast benefit	2	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	
	2016	**2015**
	Bank employees on loan	
Service cost	-*	-*
Interest cost	-*	-*
Subtraction of unrecognized amounts:		
Net actuarial loss	-*	-*
Net total benefit cost	*****	*****

b. Changes in plan assets and in benefit commitments recognized in other comprehensive loss, before effect of tax

	For the year ended December 31	
	2016	**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	**-***	**-***
Total recognized in the net cost of the benefit for the period and other comprehensive loss	**-***	**-***

* 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 2017, before effect of tax

	For the year ended December 31	
	2016	**2015**
	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	
	2016	**2016**
	Bank employees on loan	
Discount rate	1.31%	1.6%
Rate of increase in CPI	2.0%	2.0%
Employee turnover rate	-[(1)]	-[(1)]
Rate of growth of remuneration	0.5%-7.5%	0.5%-7.5%

(1) Turnover rates – in the third quarter of 2016, the Bank updated the long-term employee turnover rate for employees with optimal terns. The new turnover rates vary in accordance with age and gender and reflect a weighted turnover rate of approximately 7.5% a year as compared with 6.25% a year prior to the change. The turnover rate for employees with personal contracts has been updated following the Remuneration of office holders in Financial Institutions Law. See also Note 16E below.

2. Principal assumptions used to measure net benefit cost for the period

	For the year ended December 31	
	2016	**2016**
	Bank employees on loan	
Discount rate	1.60%	1.54%
Rate of growth of remuneration	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, 2016		December 31, 2015	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
	Bank employees on loan		Bank employees on loan	
Discount rate	(-*)	-*	(-*)	-*
Rate of increase in CPI	(-*)	-*	(-*)	-*
Employee turnover rate	-*	(-*)	-*	(-*)
Rate of growth of remuneration	-*	-*	-*	(-*)

* Amount less than NIS 0.5 million.

c. Future benefit payments expected by the Company

	Bank employees on loan
2017	-*
2018	1
2019	1
2020	-*
2021	-*
2022-2026	-*
2027 and thereafter	-*
Total	**2**

* Amount less than NIS 0.5 million.

Note 16 – Employee Benefits (cont.)

C. Personal Contract – The Company's CEO

1. The Company's CEO, Dr. Ron Weksler, holds office as the Company's CEO since February 2016. The CEO is engaged under a personal contract with Bank Hapoalim and with Isracard, until March 31, 2019 ("The Period of the Agreement" and "The Employment Agreement", respectively). The CEO is an employee who is on loan from Bank Hapoalim.

2. 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 period of office as the Company's CEO and his remuneration in accordance with the Employment Agreement. Dr. Ron Weksler will also serve as CEO of the Companies Isracard Ltd. and Europay (Eurocard) Israel Ltd.

   Each party to the Employment Agreement is entitled to discontinue the commitment under it, at any time and for any reason whatsoever, by giving 90 days advance notice. Dr. Weksler will be entitled to the terms that are set forth in the agreement. Bank Hapoalim will be entitled to redeem the said period of advance notification, in whole or in part. In the event that Dr, Weksler's period of office is discontinued or that it ends at the end of the period of the employment agreement in the circumstances that are set forth in the Employment Agreement, Dr. Weksler will be entitled to receive the topping up of the amount of the severance pay to a rate of 250%.

   According to the Employment Agreement, the CEO is entitled to fixed remuneration paid to members of management in Bank Hapoalim in accordance with the Remuneration Plan of Bank Hapoalim (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions) and variable remuneration according to the Company's Remuneration Plan. In addition, the Company's CEO is committed to a 6 month non-competition period. In January 2017, and in accordance with the Remuneration of Office Holders in Banking Corporations Law, see further on, the contract with the Company's CEO was updated with effect from October 12, 2016.

3. Mr. Ronen Stein ended his period of office as the Company's Chief Executive Officer at the end of January 2016.

D. Bonus Plan for the Chief Executive Officer

Within the context of the Company's CEO's Employment Agreement, Dr. Ron Weksler, as mentioned above, is entitled to variable annual remuneration in accordance with the provisions of the Remuneration Plan, which has been 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, including in respect of a deferred payment of part of the annual grant in accordance with Bank Hapoalim's and Isracard's performances.

Pursuant to the Plan, in each year of distribution, and subject to compliance with threshold requirements, a target bonus will be determined for the CEO, at a certain percentage of the average bonus budget for members of the management of Bank Hapoalim, in accordance with Bank Hapoalim's remuneration plan ("the target bonus").

E. 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)

Note 16 – Employee Benefits (cont.)

E. The Remuneration of Office Holders in Financial Corporations Law (Cont.)

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 amount to 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).

In addition, the Board of Directors of Bank Hapoalim (hereinafter: "**The Bank**") assumes that in light of the decrease in the remuneration terms as a result of the new legislation, the percentages of the future employee turnover from the Bank will increase. The said principles served as a working assumption for the purpose of the calculation of the impacts of the Law on the Bank's actuarial liabilities in respect of the Bank's employees who are on loan.

In light of the increase in the turnover rates, which are expected following the impact of the Law, and as required in accordance with generally accepted accounting principles for Banks in the United States and the directives issued by the Supervisor of Banks, the Bank has updated the actuarial assumptions in relation to the turnover rates for managers employed under senior personnel contracts.

The impact of the updating of the said actuarial assumptions, as calculated by the external actuary in respect of the Bank's employees who are on loan, amounted to an amount less than NIS 0.5 million. This impact has been treated as an actuarial loss, which has been reflected in shareholders' equity and which will be recognized in the statement of profit and loss over the remaining periods of service of the participants in the program.

Note 16 – Employee rights (cont.)

F. 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.

G. Agreement with Employee Union

On December 25, 2013, Isracard signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, a job description manual was agreed upon.

H. Remuneration Policy

On August 13, 2015, the Banking Supervision Department published a circular updating Proper Conduct of Banking Business Directive No. 301A on Remuneration Policy in Banking Corporations and Credit Card Companies. After the balance sheet date, the Company updated the Remuneration Policy.

Note 17 – Shareholders' Equity

A. Composition

	December 31, 2016		**December 31, 2015**	
	Registered	**Issued and paid-up**	**Registered**	**Issued and paid-up**
	In NIS			
Common shares of par value NIS 1 each	500,000	139,326	500,000	139,326

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department

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 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. For the year 2016, the rate of the deductions from regulatory capital is 60% and the ceiling for qualified instruments in regulatory capital stands at 60%. 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 "Clearers and Clearing Debit card Transactions", which contains a relief for a clearer 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 minimal capital ratios 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	
	2016	**2015**
1. Capital for purposes of calculating capital ratio		
Tier 1 shareholders' equity and Tier 1 capital, after deductions	379	332
Tier 2 capital	19	16
Total overall capital	**398**	**348**
2. Weighted balances of risk assets		
Credit risk	1,718	1,742
Market risk	11	8
Operational risk	438	411
Total weighted balances of risk assets	**2,167**	**2,161**
3. Ratio of capital to risk components		
Tier 1 shareholders' equity ratio and Tier 1 capital to risk components	17.5%	15.4%
Overall capital ratio to risk components	18.4%	16.1%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department	(2)8.0%	9.0%
Minimum overall capital ratio required by the Banking Supervision Department	(2)11.5%	12.5%

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	
	2016	**2015**
Tier 1 shareholders' equity ratio to risk components before implementation of the effect of the transitional provisions in Directive 299	17.5%	15.4%
Implementation of the impact of the transitional provisions in Directive 299	-*	-*
Tier 1 shareholders' equity ratio to risk components after the effect of the transitional provisions in Directive 299	17.5%	15.4%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211, 299 on the subject of "Measurement and Capital Adequacy". 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 "Clearers and Clearing of Debit card Transactions", which is effective as from June 1, 2016.

* 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. As a rule, this measurement will be consistent with the accounting values and risk weightings are not taken into account. In addition, the Company is not allowed to use physical or financial collateral, guarantees or other techniques for mitigating credit risk, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive.

Note 17 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leveraging pursuant to the Directives of the Banking Supervision Department (cont.)

Leverage ratio (cont.)

Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Company calculates the exposure to derivatives pursuant to Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203. Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. According to the above, a minimum leverage ratio required from the Company is 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	
	2016	**2015**
Tier 1 capital (in NIS millions)	379	332
Total exposures (in NIS millions)	3,860	3,892
Leverage ratio	9.8%	8.5%
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	
	2016	**2015**
Unutilized credit-card credit lines:		
Credit risk on the Company	2,249	2,267
Credit risk on banks	4,957	6,765
Allowance for credit losses	(3)	(3)
Total unutilized credit-card credit lines, net	**7,203**	**9,029**
Other liabilities:		
Exposure in respect of merchant credit lines	13	10
Allowance for credit losses	(-*)	(-*)
Total other liabilities, net	**13**	**10**

* Amount less than NIS 0.5 million.

B. Antitrust Issues and Regulatory Initiatives

1. Antitrust issues

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

2. Regulatory initiatives

A. In June 2015, the Banking Supervision Department published a number of directives, the objective of which was to bring about the implementation of published recommendations and measures to extend the distribution and use of debit cards in Israel and to increase competition in the area of debit cards. Among the recommendations , inter alia, the Banking Supervision Department has determined instructions for distributing debit cards to bank customers and for the immediate financial settlement of debit card transactions and the manner of presentation of the details of transactions carried out with the card, and timetables for implementation (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, a temporary order was

Note 18 – Contingent Liabilities and Special Commitments (Cont.)

2. Regulatory initiatives (Cont.)

published in the Official Gazette, 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 for the year starting April 1, 2016.

B. In parallel to the above, on the subject of immediate debit cards, in June 2015, the Banking Supervision Department published a directive for introducing the EMV security standard, both on the issuer and the clearer side. The directive, and the guidelines of the Banking Supervision Department that were issued later on, address, inter alia, the time-tables for the issue of cards supporting the EMV standard and connecting terminals supporting the standard, and the mechanism of diverting responsibility from the issuer to the clearer.

C. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Management Directive No. 472 regarding clearers and clearance of debit card transactions. The directive outlines the main rules for clearance of debit card transactions and is based, inter alia, on foreign regulation on this issue. The directive reduces the impact of some of the regulatory requirements that were imposed until now upon credit card companies and clearers as part of the Proper Conduct of Banking Management Directives, while adapting to the level of risk of these bodies, which do not accept deposits from the public. The directive includes various regulations, and allows, inter alia, for the clearer to provide terminals for the merchants under the terms included in the directive. The directive entered into effect on June 1, 2016, excluding certain clauses for which a different commencement date was set.

D. In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a committee for increasing competitiveness in banking and financial services commonly provided to households and small businesses (the Strum Committee). The Committee is required to make recommendations on adding new players in this field, including through separation of credit card companies from ownership of the banks. The Committee was also charged with recommending complementary measures required, and removing barriers to entry of players and increasing competition as aforesaid. The Committee's conclusions were published on July 6, 2016, in addition to which a draft of the Law for Increasing Competition and reducing Concentration and Conflicts of Interest in the Banking Market in Israel was also distributed. Within the framework of the draft law, it was recommended, inter alia and subject to the conditions that are detailed in the draft law; to separate the credit card companies from the large banks within 3 or 4 years of the time of the publication of the Law; to set rules in respect of the issuance of debit cards; to prohibit the large banks from operating and clearing debit cards themselves; to grant starting enterprise protections as a temporary provision for a limited period of time to new players, including the credit card companies; to enable the credit card companies to use the information that they hold, which derives from issuance activity; to require all of the banks to present all of the credit cards and all of their terms for all of the issuers that have asked the bank to do so. Within the context of the discussions that have been held on the draft law in the Knesset's Reforms Committee, it was decided to include additional matters in the draft law, including a second lien, the hosting of clearers and the working of clearers with bundlers. The Knesset Plenum passed the second and third readings of the Law on January 23, 2017. The Law was published in the Official gazette "Reshumot" on January 31, 2017.

Note 18 – Contingent Liabilities and Special Commitments (cont.)

B. Antitrust Issues and Regulatory Initiatives (cont.)

2. Regulatory initiatives (Cont.)

E. In December 2016, the Knesset Plenum passed the second and third readings of the draft Economic Program (Amendments to Legislation for the Implementation of the Economic Policy for the 2017 and 2018 Budget Years) – 2016. There is a chapter in the draft Law on "Increasing Competition in Retail Credit", which relates, inter alia, to the arrangement of the field of the issuance of credit cards other than by a banking corporation and the arrangement of credit unions' operations. The Law was published in Reshumot on December 29, 2016.

F. In June 2016, the Banking Supervision Department published the "Outline for Establishment of a New Bank in Israel: A New Policy of the Banking Supervision Department for the Removal of Entry Barriers". According to the Policy Summary, the outline constitutes part of the Banking Supervision Department's steps for Increasing Competition in the banking systems in Israel and in support of the outlined changes, inter alia, as part of the "Strum Committee". The first part of the outline focuses upon granting a bank license to credit card companies, and the second part focuses upon the conditions required for establishing a new bank from the ground up.

G. In April 2016, the Credit Data Service Law was published in the Reshumot – the establishment of a system for sharing credit data, which is intended to improve the credit data in the economy in order to increase competition in the retail credit market, increase accessibility to credit and reduce discrimination in this area. In June 2016, the Bank of Israel published a regulation regarding the retention of information for the purpose of delivering it to a credit database. The regulation specifies the data fields and information retention format required by the information sources. According to the explanation to the regulation, its purpose was to build an information base that would report to the database in a manner that allows for sufficient depth and scope of data to enable a bundler to operate on the day the database goes live.

H. In October 2016, the Bank of Israel published a Principles Document regarding "Regulation of the Payment Services", which includes principles for regulating the payment services. The principles in the document will constitute the basis for a law memorandum on the issue. Establishment of the principles was based upon the European Directive on payment services, PSD and PSD2, while making the necessary adjustments to the local market. According to the Principles Document, one of the purposes of the Payment Services Law is to adapt the consumer protections in the field of payment services and establishing terms of use and uniform consumer protection, to the extent possible, in receipt of payment services for the various payment service providers and via the various means of payment. However, every regulator will be authorized to establish additional directives to the entities it regulates in accordance with their characteristics. Entities in the financial market may choose the license that is suitable to them in accordance with their type of activity and its level of risk. The public was allowed to send its comments on the document by November 20, 2016.

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 clearing agreements with the respondents, the defendants acted unlawfully, in that they charged it a minimum fee while it was bound by agreement in parallel with a discounting company, under which the discounting company discounts some of the transactions it settled by means of the defendants without taking into account the amounts credited to the discounting company. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting firm. An amended class action was presented prior to the presentation of a statement of defense. The parties have reached a compromise agreement, within the framework of which the hearing has been consolidated with the following proceedings, which has been presented for the Court's approval. The Court has instructed the publication of the compromise agreement.

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 clearing 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.

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. Evidential hearings were 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. A number of preliminary hearings have been held in the case and it has been set for an evidential hearing in January 2017. At the Court's recommendation, the parties have been conducting an arbitration process and it would appear that an application for removal will be presented.
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.

D. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

E. Agreement with Isracard

The Company has an agreement with Isracard for the operation of the Company's activity in issuing credit cards and clearing in Israel of transactions executed with merchants using American Express cards. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's activity in the operation of this arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties; see Note 23, "Interested and Related Parties," below.

F. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-card arrangement: Bank Hapoalim B.M. (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., First International Bank of Israel Ltd., Mizrahi-Tefahot Bank Ltd., Jerusalem and Bank Ltd., Union Bank Ltd. (jointly, the "**Banks under Arrangement**").

Note 18 – Contingent Liabilities and Special Commitments (cont.)

F. Contractual Engagements with Banking Corporations (Cont.)

Within the framework of the Company's various agreements with the Banks in the Arrangement, each bank has been afforded authority to determine customers it allows to sign up for the Company's credit cards arrangement and to recommend to the Company that they be signed up for the credit cards arrangement. Each Bank in the Arrangement is responsible for honoring every charge that a customer has executed on the day on which the slips or the charges are presented to a Bank in the Arrangement. The payments arrangements and the relevant terms with each Bank in the Arrangement are included within the framework of the various said agreements.

G. 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 clearing 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 clearing of American Express credit cards. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

H. Contractual Engagements with Customers Clubs

Within the activity with customer clubs, the Company has entered into agreements 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**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include, inter alia, workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as "Hever" cards for regular army personnel and retirees, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, the Life-Style Club, and the El Al Flycard.

Note 19 – Operating Segments

A. General

The Company issues, clears, and operates American Express credit cards issued for use in Israel and abroad. The Company's activities are managed through two main operating segments: the Issuance Segment, which handles cardholders, and the Clearing Segment, which handles merchants.

The Issuance Segment

Customers register for the credit-card system by signing a credit-card contract with the Company. The Company issues American Express credit cards under a license from American Express Ltd. All income and expenses related to customer recruitment and routine handling were allocated to the Issuance Segment.

Main income items – interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer, card fees, deferred-debit fees, and fees from transactions abroad.

Main expenses – marketing, advertising, and management of customer clubs; points program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and joint sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items – fees from merchants, net of interchange fees which are allocated to the Issuance Segment.

Main expenses – recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 19 – Operating Segments (cont.)

In NIS millions

	For the year ended December 31, 2016		
Profit and loss information	**Issuance Segment**	**Clearing 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

* Amount less than NIS 0.5 million.

Note 19 – Operating Segments (cont.)

In NIS millions

	For the year ended December 31, 2015		
Profit and loss information	**Issuance Segment**	**Clearing 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 19 – Operating Segments (cont.)

In NIS millions

	For the year ended December 31, 2014		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	57	275	332
Inter-segmental fees	104	(104)	-
Total	161	171	332
Net interest income (expenses)	-*	3	3
Other income	4	(1)	3
Total income	**165**	**173**	**338**
Expenses			
Provision for credit losses	1	(-*)	1
Operating expenses	65	32	97
Sales and marketing expenses	59	10	69
General and administrative expenses	15	13	28
Payments to banks	33	49	82
Total expenses	**173**	**104**	**277**
(Loss) profit before taxes	(8)	69	61
Provision for taxes on profit	(2)	18	16
Net (loss) profit	**(6)**	**51**	**45**
Return on equity (percent net profit out of average capital)	(2.6%)	**-	16.7%
Average balance of assets	2,086	293	2,379
Average balance of liabilities	121	1,989	2,110
Average balance of risk-adjusted assets	1,561	292	1,853

* Amount less than NIS 0.5 million.

** More than 100%.

Note 20 – Assets and Liabilities by Linkage Base

In NIS millions

	December 31, 2016					
	Israeli currency		Foreign currency (1)		Non-monetary items	
	Unlinked	CPI-linked	USD	Other		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 20 – Assets and Liabilities by Linkage Base

In NIS millions

	December 31, 2015					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash	3	-	12	-	-	15
Debtors in respect of credit-card activity, net	2,228	10	57	6	-	2,301
Computers and equipment	-	-	-	-	-*	-*
Other assets	542	-	-	-	7	549
Total assets	**2,773**	**10**	**69**	**6**	**7**	**2,865**
Liabilities						
Credit from banking corporations	-	-	-	4	-	4
Creditors in respect of credit-card activity	2,432	11	62	-*	5	2,510
Other liabilities	19	-	-*	-	-	19
Total liabilities	**2,451**	**11**	**62**	**4**	**5**	**2,533**
Difference	**322**	**(1)**	**7**	**2**	**2**	**332**

(1) Including foreign-currency linked.
* Amount less than NIS 0.5 million

Note 21 – Assets and Liabilities by Currency and by Maturity (cont.)

In NIS millions

	December 31, 2016												Balance sheet balance (2)	
	Expected future contractual cash flows													
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(4)	Total	Contractual rate of return(5)
	Cash (1)	Settlement (4)	Contractual (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 ir 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.)

* 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 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 21 – Assets and Liabilities by Currency and by Maturity (cont.)

In NIS millions

	December 31, 2015												Balance sheet balance (2)	
	Expected future contractual cash flows													
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(4)	Total	Contractual rate of return(5)
	Cash (1)	Settlement (4)	Contractual (5)											
Israeli currency (including linked to foreign currency)														
Assets	1,856	445	415	53	10	-*	-	-	-	-	2,779	14	2,793	-
Liabilities	1,389	489	430	72	32	20	-	-	-	-	2,432	14	2,470	-
Difference	467	(44)	(15)	(19)	(22)	(20)	-	-	-	-	347	(-*)	323	
Foreign currency (3)														
Assets	79	(7)	-	-	-	-	-	-	-	-	72	-	72	-
Liabilities	59	2	1	-	-	-	-	1	-	-	63	-	63	-
Difference	20	(9)	(1)	-	-	-	-	(1)	-	-	9	-	9	
Of which: Difference in USD	18	(9)	(1)	-	-	-	-	(1)	-	-	7	-	7	
Total														
Assets**	1,935	438	415	53	10	-*	-	-	-	-	2,851	14	2,865	-
Liabilities	1,448	491	431	72	32	20	-	1	-	-	2,495	14	2,533	-
Difference	487	(53)	(16)	(19)	(22)	(20)	-	(1)	-	-	356	(-*)	332	
** Of which: Debtors in respect of credit-card activity	1,389	437	414	53	10	.	.	.	.	.	2,303	(2)	2,301	

* Amount less than NIS 0.5 million.

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 2 million (December 31, 2014 – 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 similar 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, 2016				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	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).

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, 2015				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash	15	15	-	-	15
Debtors in respect of credit-card activity, net	2,301	-	-	2,296	2,296
Other financial assets	533	-	-	533	533
Total financial assets	***2,849**	**15**	**-**	**2,829**	**2,844**
Financial liabilities:					
Credit from banking corporations	4	4	-	-	4
Creditors in respect of credit-card activity	2,505	-	-	2,497	2,497
Other financial liabilities	13	-	-	13	13
Total financial liabilities	***2,522**	**4**	**-**	**2,510**	**2,514**

* Of which: assets and liabilities in the amount of NIS 15 million and NIS 4 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, 2016							
	Interested parties							
	Controlling shareholders		Key executives(2)		Others		Other related parties(3)	
	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year(3)	Year-end balance	Highest balance during the year (3)
Assets								
Cash	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) The Company began applying Section 80 of the Public Reporting Directives from January 1, 2015.

(3) Based on balances at the end of each month.

Note 23 – Interested Parties and Related Parties of the Company

In NIS millions

A. Balances (cont.)

	December 31, 2015							
	Interested parties							
	Controlling shareholders		Key executives(2)		Others		Other related parties	
	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	15	29	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	-	-	-	-
Other assets	-	-	-	-	531	531	-	-
Liabilities								
Credit from banking corporations	4	5	-	-	-	-	-	-
Creditors in respect of credit cards activity	19	26	-	-	209	209	361	361
Other liabilities	-	-	-*	-*	-	1	-	-
Shares (included in equity)	-*	-*	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	4,335	4,335	3	4	-	-	-	-
Guarantees given by banks	981	995	-	-	-	-	-	-

* 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.

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, 2016			
	Interested parties			
	Controlling shareholders	Key executives(1)	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	Key executives(1)	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**

	For the year ended December 31, 2014		
	Interested parties		Related parties
	Controlling shareholders	Key executives(1)	Others
Income from credit-card transactions	1	-	42
Net interest income	1	-	-*
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(20)
Payments to banks	(47)	-	-
Total	**(46)**	**(1)**	**22**

* 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					
	2016		2015		2014	
	Key executives		Key executives		Key executives	
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	4	1	6	1	6

In addition, in 2016, the Company had salary and related expenses in the amount of approximately NIS 3 million (in 2015 and 2014, approximately NIS 3 million and approximately NIS 2 million, respectively) for 6 employees on loan from Bank Hapoalim.

D. Additional Information

- See Note 16 above – Employee Benefits.
- See Note 18 above – Contingent Liabilities and Special Commitments.

Note 24 – Events after the Financial Reporting Date

In February 2017, after the balance sheet date, subject to the approval of the general meeting, the Company's Board of Directors decided to declare a dividend of NIS 10 million.

Note 25 – Information Based on Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2016	**2015**
Total assets	**3,002**	**2,865**
Total liabilities	**2,623**	**2,533**
Equity	**379**	**332**
Nominal net profit	**47**	**40**

Corporate Governance Report, Additional Details, and Appendices to the Annual Report

For the year ended December 31, 2016

List of Tables

The Board of Directors and the Management

During 2016, 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 2016, 18 meetings of the plenum of the Board of Directors and 10 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. The Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors and the Audit Committee will be two directors.

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is 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, 2016, there were six directors and two directors, respectively.)

Members of the Board	
Ronen Stein	Serves as Chairman of the Board of Directors of the Company from May 15, 2016 Member of management of Bank Hapoalim, Deputy CEO, Head of the Retail Division from February 14, 2016. Serves as Director in Isracard, Poalim Express and Europay from February 14, 2016 and as Chairman of the Board of Directors from May 15, 2016. Also serves as Chairman of the Board of Directors of Poalim Ofakim Ltd. and Poalim Mortgage Insurance Agency (2005) Ltd. and as member of the Executive Committee of Round Up. From February 1, 2015 to February 1, 2016, served as CEO of the credit card companies: Isracard, Europay and Poalim Express. In addition, in the past five years before entering office as the CEO of the companies in the Isracard Group, or during part of that period, served as CEO of the Isracard Group and as Manager of Retail Banking Sub-Division in Bank Hapoalim, and prior thereto, fulfilled a number of managerial positions in Bank Hapoalim. LL.B. Interdisciplinary College, Herzliya. B.A. Economics – Hebrew University in Jerusalem. Holder of investment consulting license – Israel Securities Authority Holder of license to practice law. Director with financial and accounting expertise. To the best of the knowledge of the Company and of Mr. R. Stein, he is not a family member of another interested party in the corporation.
Avi Idelson	Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies. Has served as director in the Company since January 31, 2010. External director in the Company's Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. 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, Europay, and as director in Avi Idelson Management and Consulting Ltd. Serves as Chairman of the Audit Committee and Remuneration Committee of the Board of Directors of Isracard; and as member of the following committees of the Board of Directors of Isracard: Computers and Credit Risks Management; Chairman of the Audit Committee of the Board of Directors of Europay; Prior thereto, served as appointee Director of Mehadrin Ltd. and as member of the balance sheet, audit and remuneration committees of the board of directors of Mehadrin Ltd. Head of Human Resources and special consultant in the BSG Investments Group; as member of the Governing Board of the Bank of Israel and Head of Human Resources and Administration; and as consultant to companies in the area of human resources for mergers

	and acquisitions and global systems. as VP of Human Resources at Amdocs, and served in a number of positions at Bank Hapoalim B.M.: Manager of the Planning Research, and Development Department; Manager 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.
Ofer Levy	Serves as member of the management of Bank Hapoalim B.M. since May 1, 2006. Deputy CEO and Chief Accountant at Bank Hapoalim B.M. Serves as Director on the Board of Directors of the Company since September 13, 1995 and member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of the following companies: AMI Trustees Ltd., Yefet Nominees Ltd. B.A. in Accounting and Economics, Tel Aviv University. Certified Public Accountant Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. O. Levy, he is not a family member of another interested party in the corporation.

Ronit Meiri Harel	Serves as Director on the Board of Directors of the Company since February 23, 2015. Serves as Director on the Board of Directors of Isracard and on the Board of Directors of Europay and as member of the Risk Management Committee of the Board of Directors of Isracard. Also serves as Manager of the Strategy and Organizational DMO Sub-Division – COO Division in Bank Hapoalim B.M. and, prior thereto, served as Manager of the Trading and Brokerage Rooms – Financial Markets Division in Bank Hapoalim B.M..In the past five years, or during part thereof, also served as director on the Board of Directors of the Registration Company of Bank Hapoalim Ltd., and alternate director on the Board of Directors of the Tel Aviv Stock Exchange Ltd. and as Director on the Board of Directors of the Maóf Clearinghouse Ltd., but no longer serves in them. M.B.A., Tel Aviv University B.A. in Economics, Tel Aviv University Director with accounting and financial expertise. To the best of the knowledge of the Company and of Ms. R. Meiri Harel, she is not a family member of another interested party in the corporation.
Nitzana Edvi	Serves as a director of the Board of Directors of the Company since October 31, 2011. Also serves as a member of the Credit Committee and Audit Committee of the Board of Directors of the Company. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Prior thereto, economic advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. 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 Isracard and Europay. Serves as member of the Audit Committee of the Board of Directors of Isracard and the Board of Directors of Europay and member of the Credit Committee and the Remuneration Committee of the Board of Directors of Isracard. M.B.A., School of Business Administration, Tel Aviv University B.A. in Economics, Tel Aviv University. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Ms. N. Edvi, she is not a family member of another interested party in the corporation.

Itzhak Amram	Serves as member of the Board of Directors of the Company since December 16, 2013. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. Also serves as an external director on the boards of directors of Isracard and Europay under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department, and as a member of the Audit Committee and Risk Management Committee of the Board of Directors of Isracard and member of the Audit Committee of the Board of Directors of Europay. LL.B.; member of the Israel Bar Association. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party in the corporation.
Zion Ezer	Serves as director on the Board of Directors of the Company since April 16, 2015. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. Also serves as member of the Credit Committee of the Board of Directors of the Company and as external director on the Board of Directors of Isracard and on the Board of Directors of 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.
Dan Alexander Koller	Served in the position of Chairman of the Board of Directors of the Company and Chairman of the Credit Committee of the Board of Directors of the Company from August 10, 2014 to February 15, 2016. Also served in the position of Chairman of the Board of Directors of Isracard and the Board of Directors of Europay and Chairman of the Credit Committee of the Board of Directors of Isracard and Europay, but no longer serves today. B.A. and M.A. (with honors) in Economics and Business Administration from the Hebrew University in Jerusalem Mr. Dan Alexander Koller has accounting and financial expertise. To the best of the knowledge of the Company and of Mr. D. Koller, he is not a family member of another interested party of the corporation.

Senior Members of Management

Dr. Ron Weksler	Serves as CEO of the Company since February 2, 2016. CEO of the following credit card companies: Isracard and Europay. Serves as chairperson of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun. Serves as director at Global Factoring Ltd. Serves as Director (on a voluntary basis) in Young Business Leadership (Public Benefit Company) Served as a member of management in Bank Hapoalim, Deputy CEO, Head of the Strategic Planning Division from November 2013 to January 2016. Served as VP Commerce and Sales in the Company, in Isracard and in Europay from October 1, 2011 till October 31, 2013. From 2002 until October 2011, fulfilled various roles in Bank Hapoalim. Previously served as Director in the following companies: Isracard and Europay. Ph.D.in Public Administration, Bar-Ilan University MBA , Bar-Ilan University Degree in Law, Tel Aviv University B.A. Accounting – 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 in 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 the Management of the Company since February 2011.VP Risk Management and Security and Chief Risk Officer. 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 a family member of another interested party of the corporation.
Maora 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.
Nira Schmidt-Manor	Member of management of the Company, VP, Manager of the Business Sub-Division (formerly, the Commerce Sub-Division) from July 3, 2016. Also serves as member of management, VP, Manager of the Business 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.
Ram Gev	Member of management of the Company, VP Finance and Administration since the end of March 2011. Also serves as member of management, VP Finance and Administration of Isracard and europay. Serves as a director of the board of directors of the following companies: Isracard (Nechasim) 1994 and Isracard Mimun. In his previous position, acted as VP Finance at Harel Finance. In the past, served as Deputy Manager of the Corporations Department in the Israel Securities Authority. M.B.A. (specialized in finance), Hebrew University of Jerusalem B.A. in Accounting and Economics, Hebrew University of Jerusalem. Certified Public Accountant To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.

Shai Vardi	Member of management of the Company, VP Technologies from June 6, 2016. Also serves as member of management, VP Technologies in Isracard and Europay. In his previous positions, acted as Commander of the Software Unit in the Israel Police (Deputy Commissioner), VP Technologies of Discount Bank, Vice President, 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.
Ronen Stein	Served as CEO of the Company from February 1, 2015 to February 1, 2016 and serves as Chairman of the Board of Directors of the companies: Isracard, Poalim Express and Europay from May 15, 2016. For further details, see Chapter "Members of the Board of Directors of the Company".
Ron Cohen	Served as member of management of the Company, VP Credit and Finance from February 27, 2007 to August 15, 2016. Also served as member of management, VP Credit and Finance in Isracard and Europay. Served as Director in the boards of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Serves as Director on the Board of Directors of Kidum Mivne Securitization Ltd. In his previous position, before the commencement of his term of office in the Company, served as Customer Relations Manager in the Corporate Banking Division at Bank Hapoalim B.M. Serves as CEO of Tzameret Mimunim Ltd. from August 15, 2016 M.A. in Business Administration, Marketing, and Finance, Hebrew University of Jerusalem B.A. in Economics and International Relations, Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party in the corporation.
Oren Cohen Butensky	Served as member of management of the Company, VP Sales and Service from June 2011 to August 15, 2016. To the best of the knowledge of the Company and of Mr. A. Cohen Butensky, he is not a family member of another interested party of the corporation.

Vicky Levi	Served as member of management of the Company, VP Commerce from January 2014 to July 3, 2016. To the best of the knowledge of the Company and of Ms. V. Levi, she is not a family member of another interested party in the corporation.
Ronen Zaretsky	Served as member of management of the Company, VP Technologies from December 18, 2005 to June 9, 2016. To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party in the corporation.

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.

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 2016 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 – 31 days of audit were invested directly in the Company during 2016. In addition, acts 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 2015 was submitted to the Company in February 2016. A summary of audit activities for 2016 is expected to be submitted to the Audit Committee during the first quarter of 2017.

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

Disclosure on the Procedure for Approval of the Financial Statements

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

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

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

In addition, any significant defects discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors.

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

Remuneration of Auditors

Table 1 – Auditors' remuneration (1)(2)

	2016	2015
	(In NIS thousands)	
For audit activities[3]:		
Joint auditors	449	450
For services connected to the audit		
Joint auditors	2	25
For tax services[4]:		
Joint auditors	12	9
For other services[5]:		
Joint auditors	20	15
Total	34	49
Total remuneration of auditors	**483**	**499**

(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 Company is an auxiliary corporation pursuant to the Banking Law (Licensing), 5741-1981.

Intangible Assets

In May 2016, the agreement with the American Express organization in connection with the issuance and clearance 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 nine functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains 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) Employees included in the workforce of Bank Hapoalim who are loaned to the Company. In addition to the labor legislation and expansion orders, the terms of employment of most of the abovementioned employees on loan are organized in the constitution of the Histadrut Labor Federation, in various collective agreements and in various agreements regarding salary conditions and other rights.

(3) External personnel.

Table 2 - Data of the number of employee positions of the Company in terms of full-time positions

	2016	2015
Average positions on a monthly basis	156	163
Total positions at year end	159	164

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.

Trends in Human Resources

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, the Company continued to maintain this policy, through:

1. Labor relations – stable and quiet labor relations were maintained, with a continuing dialog with partners to this system, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Group's objectives.
3. 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 to the Company, 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 Group'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.

Fostering employee satisfaction and involvement

Again this year, the Isracard Group was ranked the best credit card company to work in, and was in twenty-third place among the best 100 companies to work for in a BDI survey.

The Company routinely has a number of activities and initiatives in collaboration with the various units in order to increase employee involvement in the Company's activities and operating results. This involvement is reflected in, among other things, the higher motivation for sales and in raising innovative ideas for improving processes.

One of the core values of the Isracard Group is the provision of quality service to our internal and external customers. Further to the Internal Organization-wide Service Survey conducted a year ago, the Company conducted a process for deepening the feeling of partnership and creating overall commitment to internal and external service.

Corporate Responsibility, Ethics and Regulation

The Isracard Group has published its second Corporate Responsibility Report. The report presents all activity of the Isracard Group in this area and the effects on the Group's stakeholders in 2014-2015. As a result of the report's publication, the Group received special recognition from the Corporate Responsibility Institute in Israel, due to the Group's status as one of the pioneers among the corporations in Israel.

The Isracard Group is committed to values-driven and deferential business conduct with all of our business partners and stakeholders. The ethical code constitutes the Group's value identity card and reflects the unique values and the code of conduct to which we see ourselves committed. In 2016, we took steps to make the Group'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.

Organizational Development and Professional Training

As strategic partners guiding and supporting achievement of the objectives of the organization as a whole, including the business units within it, a targeted training program has been created for each business unit, including targeted plans for employees, based on the needs which have been recognized.

In 2016, we placed emphasis on adapting training to the changing challenges and business environment; improvement of service and sales skills of service representatives; assimilation of new products and services. The Company also worked on training and enhancing the professional knowledge of employees and executives in various roles and providing tools which encourage creativity and openness for innovation, the acquisition of sales skills for various populations in the Company and enhancing professional knowledge.

Promotion of Diversity

The Company has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups, under-represented in the labor market. In 2016, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and the possibility for everyone to reach professional and personal fulfillment, with the aim of creating a tolerant, civil community of employees.

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

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

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

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

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

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

a. Antitrust issues – see Note 18B.1 to the financial statements above.

b. Regulatory initiatives – See Note 18B.2 to the financial statements above.

c. Legal proceedings and contingencies – See Note 18C to the financial statements above.

Description of the Company's business by operating segments

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

Credit card issuance segment

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services.

As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, 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 clearing 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 are the following: (1) the ability to issue credit cards under international licenses; (2) collaboration with the Banks Under Arrangement, for the distribution and issuance of credit cards and cooperation with other banking corporations, as stated above, for the distribution of credit cards, including the combination of a bank card in the framework of the credit card issued by the Company; (3) brand image, prestige, and uniqueness in its field; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supportive operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its trademark, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and investments in technological infrastructures, including a supportive operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

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

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

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not have credit cards or who have credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition for "wallet share" of cardholders (who may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of products issued by the Company and/or increasing the volume of use of such products; (3) offers of non-bank credit services through revolving credit cards or through loans for cardholders, as an addition and/or alternative to credit granted by banks and other financial institutions.

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

In order to cope with competition, the Company (including through Isracard, which administers and operates credit-card issuance activity on behalf of the Company) takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks; (3) reinforcement of status and image through advertising, benefits, and various offers for cardholders; (4) provision of unique services, including concierge services and international discount and benefit programs; and (5) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

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

Negative factors affecting the Company's competitive standing include, among others: some merchants that do not accept its cards; technological improvements that create the possibility of development of alternative means of payment in areas such as payments via cellular phones, which may cause a decline in the demand for credit-card issuance; and the entry of retail and other entities into the issuance field and/or expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

The Credit-Card Clearing Segment

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

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

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, advance payments, and discounting.

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

Critical success factors in the operating segment, and changes therein – The main critical success factors in the Clearing Segment, the Company's opinion, are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to clearing customers – merchants – and the ability to recruit and retain merchants through a targeted sales and marketing system; (6) provision of related services to merchants, including various financial, and operational services; (7) operational efficiency; (8) accumulated experience in the area of clearing of credit cards; and (9) a robust capital structure and available sources of financing.

Key entry barriers in the operating segment - The key entry barriers in the provision of credit-card clearing services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license, including a license from international organizations to clear the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a communications system to allow the operation of clearing; (4) the need to perform clearing services on a large scale in order to recover the investment in infrastructures, clearing systems, and other costs; (5) development of a reliable information system for account settlement; and (6) a sales, recruitment, and customer service system.

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

Competition

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

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

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

Another aspect of competition in the clearing sector is focused on the development of financial and operational products and services for merchants. Credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services, such as payment in installments, advances, flexible crediting dates, joint sales-promotion campaigns for the credit-card company and the merchant, discounting services, etc.

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

The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as financing services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the clearing service provider, and in formulating the overall perception of the Company by merchants.

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

Negative factors affecting the Company's competitive standing include, among others, technological improvements that create the possibility of development of alternative means of payment such as payment via cellular phones, which may cause a decline in credit-card clearing; and competition against other credit-card brands in Israel.

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

Ronen Stein	**Dr. Ron Weksler**
Chairman of the Board of Directors	Chief Executive Officer

Tel Aviv, February 26, 2017

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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	-	*	-	-	-*	-	-	2	-
Debtors in respect of credit-card activity(3)	17	2	[illegible]	19	1	[illegible]	25	1	[illegible]
Other assets	502	*	-	461	-*	-	472	1	[illegible]
Total interest-bearing assets	**519**	**2**	[illegible]	**480**	**1**	[illegible]	**497**	**4**	[illegible]
Non-interest-bearing debtors in respect of credit cards	2,351			2,068			1,856		
Other non-interest-bearing assets(4)	33			29			26		
Total assets	**2,903**			**2,577**			**2,379**		

* 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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	3	(-*)		3	(-*)	-	4	(-*)	-
Subordinated notes	-	-		-	-	-	56	(1)	(1.79)
Other liabilities	-*	(-*)		-*	(-*)	-	1	-	-
Total interest-bearing liabilities	**3**	**(-*)**		**3**	**(-*)**	**-**	**61**	**(1)**	**(1.64)**
Non-interest-bearing creditors in respect of credit cards	2,526			2,247			2,032		
Other non-interest-bearing liabilities(3)	19			17			17		
Total liabilities	**2,548**			**2,267**			**2,110**		
Total capital means	**355**			**310**			**269**		
Total liabilities and capital means	**2,903**			**2,577**			**2,379**		
Interest spread			[illegible]			0.21			(0.84)
Net return on interest-bearing assets in Israel	519	2	0.39	480	1	0.21	497	3	0.60

* 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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	519	2	0.39	480	1	0.21	497	4	0.80
Total interest-bearing liabilities	-*	(-*)	-	1	-*	-	58	(1)	(1.72)
Interest spread			0.39			0.21			(0.92)
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	-	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	3	(-*)	-	2	-*	-	3	(-*)	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	519	2	0.39	480	1	0.21	497	4	0.80
Total interest-bearing liabilities	3	(-*)	-	3	-*	-	61	(1)	(1.64)
Interest spread			0.39			0.21			(0.84)

* 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, 2016 versus year ended December 31, 2015

	Increase (decrease) due to change (1)		
	Quantity	**Price**	**Net change**
		In NIS millions	
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	**-**	**-**	**-**

Year ended December 31, 2015 versus year ended December 31, 2014

	Increase (decrease) due to change (1)		
	Quantity	**Price**	**Net change**
		In NIS millions	
Interest-bearing assets (2)			
Cash	-	(2)	(2)
Debtors in respect of credit-card activity	(-*)	-*	(-*)
Other interest-bearing assets	-*	(1)	(1)
Total interest income	**-***	**(3)**	**(3)**
Interest-bearing liabilities (2)			
Credit from banking corporations	-	-	-
Subordinated notes	(1)	-	(1)
Other interest-bearing liabilities	-	-	-
Total interest expenses	**(1)**	**-**	**(1)**

* 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

	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
Total expenses	**86**	**87**	**83**	**80**
Profit before taxes	14	19	17	15
Provision for taxes on profit	5	5	4	4
Net profit	**9**	**14**	**13**	**11**
Basic net profit per common share (in NIS)	**70**	**101**	**91**	**78**

* Amount less than NIS 0.5 million.

Table 4 - Quarterly Statements of Profit and Loss – Multi-Quarter Data (cont.)

NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	97	98	89	84
Net interest income	-*	-*	1	-*
Other income	(1)	(1)	-*	-*
Total income	**96**	**97**	**90**	**84**
Expenses				
Provision for credit losses	3	1	1	1
Operating expenses	29	30	33	28
Sales and marketing expenses	21	21	16	18
General and administrative expenses	8	7	8	7
Payments to banks	21	22	19	18
Total expenses	**82**	**81**	**77**	**72**
Profit before taxes	14	16	13	12
Provision for taxes on profit	4	4	4	3
Net profit	**10**	**12**	**9**	**9**
Basic net profit per common share (in NIS)	**74**	**80**	**67**	**64**

* Amount less than NIS 0.5 million.

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

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**

Table 5 - Balance Sheets as at the End of Each Quarter – Multi-Quarter Data (cont.)

NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash	15	24	24	29
Debtors in respect of credit-card activity	2,314	2,147	2,093	2,068
Allowance for credit losses	(13)	(12)	(12)	(12)
Debtors in respect of credit-card activity, net	2,301	2,135	2,081	2,056
Computers and equipment	-*	-*	-*	2
Other assets	549	466	477	454
Total assets	**2,865**	**2,625**	**2,582**	**2,541**
Liabilities				
Credit from banking corporations	4	-*	1	4
Creditors in respect of credit-card activity	2,510	2,287	2,253	2,216
Other liabilities	19	16	18	20
Total liabilities	2,533	2,303	2,272	2,240
Capital	332	322	310	301
Total liabilities and capital	**2,865**	**2,625**	**2,582**	**2,541**

* Amount less than NIS 0.5 million.