Translated from Hebrew original

Isracard Ltd. and its Consolidated Companies

# Annual Report

For the year ended December 31, 2017

ISRACARD

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# Forward-Looking Information

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

# Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the Management, I am pleased to submit to you the Annual Financial Report of Isracard Ltd. (hereinafter "**Isracard**" or "**the Company**") for 2017.

Isracard finishes 2017 with a net profit of NIS 252 million, compared with a net profit of NIS 229 million in 2016. The overall capital ratio to risk components in 2017 was 20.9%.

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

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

Isracard serves a wide and diverse range of customers and meets individual and corporate customers in the various channels. In 2017, we continued to feel the growing trend in which the customers raise the level of demand from financial service providers to a service they consider appropriate which meets the requirements of each customer in the channel and at the time appropriate to it. We consider this trend to be a business opportunity since the Company has a loyal customer base that sees the "Isracard" brand as strong, stable and reliable. In Isracard, we place the customer at the center and the Company is focused on the customer's requirements and the experience of the customer who uses our services. In 2018 and thereafter, too, we will continue to invest in expanding the range of our products and services and making them accessible to new and existing customers in the various channels, while maintaining operating and process excellence, continuously examining our customers' needs and improving service. In view of this, we have invested in recruiting new customers and in deepening our relationships with existing customers.

As the largest credit card company in Israel, we continue to lead the payments market, even in light of the challenges of the new era, technological developments and consumers' expectations, and from an understanding of the importance of leading in the digital domain and in innovation. For this purpose, the Company is constantly taking steps to become proficient in these worlds.

As part of our desire to provide advance and diverse options to make the services and transactions accessible to a wide range of customers, the Company launched a range of new and advanced digital services for its customers last year.

In 2018 the Company will continue to invest in providing a response to the customer's requirements and promoting the personalization and accessibility of content and benefits relevant to the customer in the various channels. Furthermore, the Company will continue to expand digital services to private and corporate customers, while improving the digital experience in each of the channels and will continue to promote partnerships and innovative technologies, maximizing value to its customers.

In the area of credit, 2017 was characterized by continuing moderate and controlled growth in the Company's credit portfolio. At the end of 2017, the balance of consumer credit amounted to NIS 2,370 million and the balance of business credit was NIS 1,083 million. The Company placed great emphasis on regular monitoring analysis and control processes, with the aim of continuing to provide prudent credit, with responsible, controlled and quality risk management. At the same time, the Company perceives a continuation of the challenge in collecting from private customers, a trend which may also be detected among other financial entities operating in the credit market.

This year, too, the Company continued to conduct many and varied activities with its employees, as part of the development of the human resource, from the concept that the Company's employees are its primary asset, while viewing the employee organizations as full partners in leading the Company to its achievements. In addition, this year, the Company signed a collective labor agreement up to the end of 2023.

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

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

Sincerely,

Eyal Deshe, Chairman of the Board of Directors

Tel Aviv, February 25, 2018

Isracard Ltd. and its Consolidated Companies

# Report of the Board of Directors and Management

For the year ended December 31, 2017

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## General Review, Targets and Strategy

## Summary Description of the Company and Main Areas of Operation

The Company and its significant investee companies (hereinafter "**the Company**" or "**Isracard**" ") is a credit card company which operates in the areas of issuance and acquiring of credit cards of various brands and in the area of granting credit.

The payments system in Israel usually comprises of an issuer, an acquirer, an international organization (which holds the relevant credit card brand), merchant and customer (the cardholder). In essence, the reciprocal relationships between the aforesaid entities are as follows: (1) The issuer issues a credit card to its customer (the cardholder). by virtue of a license or membership of the issuer in the international organization; (2) The cardholder uses the card as a means of payment at the merchant to purchase goods or services; (3) The merchant transfers the details of the transaction to the acquirer, as a rule, through Automatic Bank Services Ltd. (see section "Strategic cooperation and significant agreements") to this Report of the Board of Directors and management (hereinafter: "**the Report of the Board of Directors**") under the heading "Main service suppliers") or through the international organization (in relation to transactions executed with an acquirer overseas); (4) The acquirer transfers the consideration for the transaction to the merchant, net of the merchant's commission, and collects the consideration from the issuer. (5) The issuer collects the consideration from the cardholder's account through the bank in which his account is maintained and credits the acquirer net of the "interchange commission" (otherwise called: "issuer's commission", i.e., a commission paid by the acquirer to the issuer in respect of a transaction carried out by a credit card issued by the issuer and acquired by the acquirer).

As of the date of signing the report, the Company operates in the issuance and acquiring of the brands "Isracard", "Mastercard", and "Visa" (hereinafter, "**the Company brands**"), through the Company itself and through Europay (Eurocard) Israel Ltd. (hereinafter, ("**Europay**"). Details regarding the Company's main activities are as follows:

Isracard was established and incorporated in Israel in 1975 as a private company pursuant to the Companies Ordinance [New Version], 1983 (hereinafter: "**the Companies Ordinance**"). As of the date of signing the report, Isracard is held at a rate 98.2% by Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**"). Isracard issues, acquires, and operates "**Isracard**" credit cards (a private brand owned by the Company) and also issues jointly with Europay credit cards which combine the **Isracard** and **MasterCard** brands (hereinafter: “**MasterCard cards**”), as set forth below. In the area of acquiring, Isracard acquires (in addition to the "**Isracard"** brand cards) transactions executed in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers and executed with merchants with which it has agreements; and transactions in Israel executed with the merchants as aforesaid using Mastercard cards issued abroad, and paid to the merchants in Israeli currency.

In addition, Isracard issues, acquires and operates "Visa" type credit cards for use in Israel and abroad.

Europay issues, jointly with Isracard, Mastercard cards issued for use abroad. In the area of acquiring, Europay acquires transactions in foreign currency executed with merchants connected with it in agreements and executed in Israel through Mastercard cards issued abroad. Europay's issuance and acquiring activity, as aforesaid, is managed by Isracard under an agreement between the said companies.

In the issuance area, the Company issues non-bank credit cards and operates bank cards. The Company's activity, as aforesaid, is executed under "**Mastercard**" and "**Visa**" brands, is conducted by virtue of licenses awarded to it by the abovementioned international organizations. For details, see section "Strategic cooperation and material agreements" in the Report of the Board of Directors under the heading

"Arrangements with international organizations".

In the area of credit, the Company offers its customers (both through Isracard itself and through its subsidiaries) financing solutions according to the nature of the customer's activity taking into account its classification (private persons; commercial credit), its economic situation and its repayment capacity.

The credit products for private customers, some of which are holders of the Company's credit cards and some not, include, mainly: credit through the card (such as "Revolving credit", "CREDIT" and other credit as part of the credit facility granted to the customer as part of the card) and loans which are outside the credit card. The credit products for merchants include, mainly: loans, discounting of vouchers, prepayments and factoring (including procurement factoring).

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

The Company and its consolidated companies are part of the Isracard Group (hereinafter: "**the Group**" or "**Isracard Group**"), which includes, inter alia, Poalim Express Ltd., a wholly-owned sister company wholly owned by Bank Hapoalim (hereinafter: **"Poalim Express"**).

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

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

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

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

## Principal Condensed Financial Information

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

**Net profit** of the Company in 2017 amounted to NIS 252 million, compared with NIS 229 million in the corresponding period last year, an increase of 10.0%.

**The rate of return of net profit on average equity** in 2017 stood at 9.6%, compared with 9.0% in 2016.

**Total assets of the Company** at December 31, 2017 amounted to NIS 17,895 million, compared with NIS 17,058 million at the end of 2016.

**The balance of debtors in respect of credit card activity, net,** at December 31, 2017 amounted to NIS 16,753 million, compared with NIS 16,091 million at the end of 2016.

**Total capital attributable to the Company's shareholders** at December 31, 2017 amounted to NIS 2,701 million, compared with NIS 2,665 million at December 31, 2016.

**The ratio of total capital to risk elements** at December 31, 2017 amounted to 20.9%, compared with 21.8% at December 31, 2016.

# Table 1 - Summary financial information and long-term performance indices

**NIS millions**

| For the year ended December 31, | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2014** | **2013** |
| **Main performance indices (in %)** | | | | | |
| Rate of return of net profit on average equity | 9.6% | 9.0% | 10.8% | 14.3% | 15.9% |
| Rate of return of profit before taxes on average equity | 13.2% | 13.3% | 15.6% | 20.0% | 21.1% |
| Return of net profit to average balance of assets | 1.4% | 1.4% | 1.6% | 1.9% | 1.9% |
| Tier 1 shareholders' equity ratio | 19.8% | 20.7% | 19.9% | 18.9% | 17.3% |
| Leverage ratio * | 12.5% | 12.9% | 12.1% | | |
| Ratio of income to average assets | 10.3% | 10.4% | 10.4% | 10.4% | 10.2% |
| Ratio of expenses to income | 80.7% | 80.2% | 77.3% | 73.9% | 74.8% |
| | | | | | |
| **Main credit quality indices (in %)** | | | | | |
| Rate of the balance of allowance for credit losses in respect of debtors in respect of credit card activity from the balance of debtors in respect of credit card activity | 1.02% | 0.91% | 0.74% | 0.70% | 0.64% |
| Rate of the balance of impaired debtors in respect of credit card activity from the balance of debtors in respect of credit card activity | 0.21% | 0.17% | 0.09% | 0.08% | 0.15% |
| Rate of write-offs, net, in respect of credit card activity from the average balance of debtors in respect of credit card activity | 0.50% | 0.29% | 0.11% | 0.08% | 0.02% |

| For the year ended December 31, | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Principal data from the profit and loss account for the reporting year:** | | | | | |
| Net profit attributable to the shareholders of the Company | 252 | 229 | 251 | 292 | 286 |
| Income from credit card transactions | 1,492 | 1,433 | 1,359 | 1,342 | 1,281 |
| Net interest income | 271 | 233 | 174 | 144 | 133 |
| Credit loss expenses | 109 | 80 | 32 | 19 | 7 |
| Operating and other expenses | 1,348 | 1,291 | 1,197 | 1,136 | 1,126 |
| Of which: Salaries and related expenses | 326 | 293 | 280 | 270 | 304 |
| - | | | | | |
| **Net profit per ordinary share in the reporting year** (in NIS attributable to shareholders) | | | | | |
| Basic and diluted net profit per ordinary share | 343 | 311 | 342 | 396 | 390 |
| **Principal data from the balance sheet at the year-end** | | | | | |
| Total assets | 17,895 | 17,058 | 15,893 | 15,046 | 14,563 |
| Debtors in respect of credit card activity, net | 16,753 | 16,091 | 15,111 | 14,093 | 13,565 |
| Other assets | 740 | 571 | 441 | 417 | 338 |
| Total liabilities | 15,194 | 14,393 | 13,437 | 12,845 | 12,649 |
| Creditors in respect of credit card activity | 12,104 | 12,089 | 12,126 | 12,015 | 11,872 |
| Other liabilities | 1,073 | 1,082 | 988 | 802 | 759 |
| Capital attributable to the shareholders of the Company | 2,701 | 2,665 | 2,456 | 2,201 | 1,914 |
| | | | | | |
| **Other data** | | | | | |
| Dividend distributed to the shareholders of the Company | 230 | - | - | - | - |

* Disclosure requirements applicable since April 1, 2015

## Main Risks to which the Company is Exposed

Some of the information set forth in this chapter, even if it is based on processing of historical data, represents forward-looking information, as defined in the Securities Law, as outlined in the introduction to this report.

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

- **Credit risk –** deriving from the possibility that a borrower and / or counterparty will not meet its obligations in accordance with the agreed conditions.
- **Liquidity and financing risk –** is the risk to the Company's profits and stability, which derives from its inability to provide its liquidity needs, the ability to finance a growth in assets and to repay its liabilities on their date of repayment, without incurring exceptional losses.
- **Operational risk –** deriving from failing or defective internal processes, from human errors, from system malfunctions, and from external events.
- **Information security risks and cyber incidents**: - the risk that material information including sensitive business and customer details are leaked, as well as cyber-attacks directed against the Company's infrastructure.
- **Legal risk –** deriving from the absence of the possibility of legally enforcing the existence of an agreement, impairment in the Company's activity deriving from an erroneous interpretation of a provision of a law or regulation, or the existence of a legal proceeding (e.g., class actions) brought against any of Companies in the Company's Group.
- **Regulatory risk –** deriving from material changes, from the legislative processes and/or from drafts and/or directives of various regulatory entities, providing restrictions on the Company's areas of activity and sources of income, or imposing obligations whose implementation involves significant costs to the Company.
- **Strategic and competition risk –** deriving from flawed business decisions, improper implementation of business decisions and the failure to perform or adapt the work plan to changes in the business environment and a lack of response to changes in the market (e.g., steps taken by competitors), economic or technological.

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

# Targets and Business Strategy

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

## The strategic targets of the Company are as follows:

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

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

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

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

In addition, the Company continues to develop innovative technological solutions for expansion into new venues, such as: payment network, cooperation with Eazymatch Ltd. (which deals, inter alia, with credit card reconciliations), and others. In addition, the Company intends to take measures to continue growth in credit and its various products and expand the use of credit cards at the expense of cash and checks in areas such as B2B and managed cards.

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

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

The Company will continue to take steps to create a preference and a diversion to the Company's card payments, as well as to non-electronic payments, with an emphasis on penetration into new sectors of activity, which at the date of signing the report, are not characterized by the use of credit cards, at the same time as expanding activity in existing sectors. The Company intends to take steps to preserve its leadership in the credit card market, and pursuant thereto, the Company will focus on maintaining and expanding existing distribution channels, both in terms of growth in turnover and in terms of growth in the number of cards, within the framework of and subject to the provisions of the Strum Law. In addition, the Company will continue to grow, from a long-term perspective, in various clubs. In addition, the Company has begun negotiations in relation to the entry as an issuance operator for new banks, also pursuant to the provisions of the Strum Law. The Company has continued to focus on increasing the cardholder's transaction volumes, while focusing on steps to deepen its usage abroad (including a digital platform), with the aim of increasing its market share.

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

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

**Credit dominance**: As part of the changes in the market, credit will continue to be a significant growth engine in the Company's activity. To this end, the Company will continue to invest in the development of advanced credit solutions adapted to the customer, in order to create a competitive advantage and a closer connection to the world of payments, such as credit granted at points of sale. In addition, the Company will increase the customers' credit potential by focusing on banking customers and non-banking customers, all whilst managing quality underwriting models and credit policy and linked risk.

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

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

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

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

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

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

## Strategic cooperation and significant agreements

### Agreements with international organizations

The Company's issuance and acquiring activities in the "MasterCard" and "Visa" brands are executed by virtue of the Company's arrangements with the aforementioned international brand organizations (hereinafter: "**the international organizations**") and by virtue of the Company's status as a member thereof. The Company attaches importance to the engagement with several international organizations simultaneously in order to maintain its ability to offer its customers a variety of international credit card brands.

### The following is a summary of the principles of the abovementioned arrangements:

Arrangements with Mastercard Inc. (hereinafter "MC" or "Mastercard Organization")

To the best of the Company's knowledge, MC is an international organization engaged in the field of payments in a large number of countries around the world.

To the best of the Company's knowledge, according to the provisions and rules stipulated by MC (rules which are periodically changed at the sole discretion of MC) (hereinafter: the "**MC rules**"), the issuance, acquiring and operation of "**MasterCard**" credit cards are generally permitted to business entities who are members of MC, according to the hierarchy of the membership status existing in the organization, the main ones being **Principal Member** and **Affiliate Member**, which differ, inter alia, in the type of activities permitted for each class of companies, and their responsibilities, all in accordance with the MC rules. As of the date of signing the report, Europay has the status of a **Principal Member**, and Isracard has the status of **Affiliate Member** of MC and, to the best of the Company's knowledge, the Banks in the Arrangement (as this term is defined in the section "Strategic collaborations and material agreements" in the Report of the Board of Directors under the heading "Engagements with various banks in the Arrangement of the issuance of bank cards") has the status of "Affiliate Member") in connection with the acquiring and/or issuance of MC cards, as applicable), by virtue of Europay's membership as a **Principal Member**.

To the best of the Company's knowledge, all of the members of MC (including **Affiliate Members**) are subject to the MC rules, which regulate, inter alia, the terms of membership in MC and its termination, the right to use the Mastercard trademarks and brand and the terms of use, and the obligations of the members in connection with various payments to MC, as well as various provisions relating to the method of operation and use of credit cards carrying the Mastercard brand by members. In accordance with and subject to the MC rules, Europay, in its status as a **Principal Member**, is responsible for full compliance of the MC rules by each of the **Affiliate Members** who are attached to its membership of MC, and bears the responsibility for a breach of the MC rules by them, as well as responsibility of each **Affiliate Member** for its activities in connection with its membership of MC. As at the date of signing the report, Bank Hapoalim is guarantees Europay's liabilities vis-à-vis MC.

Pursuant to the Company's settlement of accounts with MC, the Company is required to pay various commissions (as stipulated in the MC rules and other business agreements with the organization), some of which are fixed and some of which are at variable rates/amounts, which are derived, inter alia, from acquiring volumes and issuance volumes, and are also determined in accordance with various business processes carried out by the Company to expand the scope of activity in the brand (sometimes as credits/refunds).

The MC rules also include various grounds whereby MC may (subject to arrangements and conditions provided, including in connection with giving advance notice, right of remedy, etc., as the case may be) terminate its membership and/or revoke the license of any of its members and impose penalties (which are liable, in certain circumstances, to amount to material sums), as applicable, including: (1) failure to comply with the payment of commissions to MC by the member; (2) if there is a proceeding, such as a liquidation, bankruptcy, insolvency or a decision of an authority from the State authorities to terminate its activity; (3) if the member transferred or attempted to transfer control over it to another legal entity, merged with another entity and/or sold most of its assets without the approval of MC; (4) if the member's activity endangered the value of the brand; (5) if the member acted contrary to the MC rules; etc.

The license granted to Europay and Isracard by the Mastercard organization in connection with the issuance and acquiring of the **Mastercard brand** is not fixed in time, subject to the maintenance of and compliance with the material rules of MC.

To the best of the Company's knowledge, as at the date of signing the report, Isracard and Europay comply with the material terms of the MC rules and they are not aware of any **Affiliate Member** under its auspices being in material breach of such rules.

In August 2017, the Company received a request from MC, which referred to various topics in which the Israeli market, in general, and the Company, in particular, do not comply with the regulatory provisions of MC. The main topics mentioned are, according to the Company's assessment, market-wide and not solely dependent on the Company, and require the response of additional players in the sector. As a result of the said request, the Company and the representatives of MC have agreed on the content of the issues to be dealt with from among the topics included in the request, as well as the time-tables for implementation of the action plan which was formulated.

It should be noted that the Company is materially dependent on the agreement with MC and its terms. The acquiring of the "Mastercard" brand constitutes the main acquiring activity of the Company.

Arrangements with Visa International Organization (hereinafter: "Visa Organization")

To the best of the Company's knowledge, Visa Organization is an international organization which is engaged in the field of payments in a large number of countries around the world.

In general, pursuant to the provisions and rules prescribed by the Visa Organization (rules that change from time to time at the sole discretion of the Visa Organization) ("**the rules of the Visa Organization**"), issuance, acquiring and operation of Visa credit cards are permitted (as applicable) generally only to corporations that are members of the Visa Organization. To the best of the Company's knowledge, there are several statuses of companies in the Visa Organization, the main ones being:

**Principal Member, Associate Member** and **Participant Member**, which differ, inter alia, in the type of corporation that can accept any membership status, the type of activities permitted for each membership status, the responsibility of each class, etc., in accordance with the rules of the Visa Organization. As at the date of signing of the report, the Company's activity in the area of issuance and acquiring of Visa brand cards in Israel is by virtue of the Company's membership in the Visa Organization with the status of **Associate Member**, under the auspices of Bank Hapoalim, which, to the best of the Company's knowledge, as at the date of signing of the report, has the status of **Principal Member** in the Visa Organization. As at the date of signing the report, the Company is in the process vis-à-vis the Visa Organization of receiving the status of **Principal Member**. In addition, to the best of the Company's knowledge, as at the date of signing the report, Bank Yahav, Bank Otsar Hahayal and Bank Massad have status as a **Participant Member** under the Company's auspices.

The rules of the Visa Organization regulate, inter alia, the terms of membership in the organization and its termination, the right to use the Visa trademarks and brand, and the terms of use thereof, as well as the members' obligations to make various payments to the Visa Organization and various provisions regarding the manner and system of operation and use of credit cards under the "Visa" brand by members.

As part of the Company's settlement of accounts with Visa, the Company is required to pay various commissions (as stipulated in the rules of the Visa Organization and other business agreements with the organization), some of which are fixed and some of which are at variable rates/amounts, which are derived, inter alia, from acquiring volumes, issuance volumes and the number of cards, and also are determined in accordance with various business processes carried out by the Company to expand the scope of activity in the brand (sometimes as credits/refunds). The rules of the Visa Organization also establish various grounds whereby the Visa Organization may (subject to arrangements and conditions prescribed, including, in connection with the provision of advance notice, right of remedy, etc., as applicable) terminate its membership and/or revoke the license of any of its members and/or suspend them and impose penalties (which, in certain circumstances, may amount to material sums), as applicable, including: (1) if the Technology License Agreement and/or the License Agreement for the Use of the Trademarks of the Visa Organization, the appendices to the Membership Agreement of the Visa Organization, have come to an end (for reasons such as a material breach of any of the above agreements made by the member and/or if the member carries out an action that harms or detracts from the rights of the Visa Organization in the trademarks of the "Visa" brand and/or if a procedure, such as liquidation, bankruptcy, insolvency, etc has taken place); 2) if the member is in material breach of any of the terms of the membership agreement (such as failure to comply with the rules of the Visa Organization and decisions of the Board of Directors of the Visa Organization, including non-payment to the Visa Organization of various payments required from the member in respect of the use of Visa brand marks and/or penalties imposed on the member by the Visa Organization etc.; or in the event that the member transfers in any way (including by way of a lien) his rights under the membership agreement; (3) if the Visa Organization believes that the member does not meet the conditions of membership in the Visa Organization or if, at its discretion, there is a substantial concern that the member may not meet the said conditions; (4) if the member acts under the auspices of another member and the sponsor removes the said sponsorship (unless the member took steps to regulate his status in the Visa Organization or if the organization approved the activity of the said member without sponsorship); etc.

The aforesaid license which is granted to the Company by the Visa Organization is not fixed in time, subject to the maintenance and compliance with the material rules of the Visa Organization. To the best of the Company's knowledge, as at the date of signing the report, the Company is in compliance with the material conditions of the rules of the Visa Organization and it is not aware that any of the Participant Members under its auspices is in material breach of such rules.

According to the Company's assessment, although as at the date of signing the report, the operating results of the Company by virtue of its engagement with the Visa Organization do not have a material effect on the Company's overall results, this engagement and the continuation of the Company's activity with the "Visa" brand are important to the Company's ability to cope with business trends and regulatory and other changes in the credit card market.

### Agreements with various banks in an arrangement for the issuance of bank cards

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

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

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

### Engagements with customer clubs

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

The cards issued to club members usually, and if applicable, grant them discounts (including discounts/exemption from card fees for certain periods), credit under preferential terms, gifts on enrolment, special benefits and services in a variety of merchants that honor the club cards, all according to the conditions of each of the clubs. The entities participate in the activity of the Company's customer clubs, including, inter alia, consumer bodies and commercial corporations, employee organizations and professional organizations, which wish to issue a club card to their customers and/or their employees by means of the Company's credit cards. The Group's customer clubs can be classified into four main categories: (1) clubs for organizations and free professions, such as the Hever Club (for career and retired members of the armed forces, security forces, members of the IDF Disabled Veterans organization and their spouses), the HOT Club (for engineers, technicians, academics in the social sciences and the humanities, social workers and their spouses), the Ashmoret Club (for members of the Teachers 'Union, their spouses and teaching students), as well as clubs for workers' organizations, such as Rafael, Egged and Israel Aircraft Industries. (2) consumer clubs, such as Life Style and retail clubs for retailers and chains, such as Rami Levy and Victory; (3) youth clubs, soldiers and students, such as "Isracard Tsa'ir" (for youth aged 16-22), "Yoter" Club (for soldiers in regular service or in education) and "Campus Card" for students, and (4) clubs of various banks in general,

As part of these agreements and according to the specific agreements between the Company and each club from time to time, the Company usually pays the clubs various amounts in respect of the club cards issued by the Company to club members.

## Main service suppliers

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

#### Banking Acquiring Center and Automatic Bank Services Ltd.

To the best of the Company's knowledge, Banking Acquiring Center ("Masav") operates an electronic acquiring system for credits and debits which are transmitted electronically between banks and customers of various protocol, the Antitrust Authority ordered the establishment of an association to which ABS will transfer all of its rights in the communications protocol for no consideration. In accordance with the instructions of the Antitrust Authority, the association will enable any user of the protocol to join it at no cost, and that the voting rights in the association will be determined such that it gives appropriate representation to all users. Discussions are currently underway in the Bank of Israel's Card Committee regarding the regulations. Except for debit/credit transactions through accounts maintained at Bank Hapoalim, which are executed using a direct interface with Bank Hapoalim itself, and transactions with merchants which are acquired abroad, all of the transactions in the Company's credit cards are executed via the ABS and Masav systems. To the best of the Company's knowledge, ABS and Masav are banking corporations (by virtue of their being joint service companies (as this term is defined in the Banking Licensing Law), which share a common technological infrastructure and joint work teams in many areas and are managed by one chief executive..

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

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

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

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

## Additional service providers

As at the date of signing the report, the Company is engaged with a number of other key service providers in an agreement for variable periods (which are renewed periodically), as set forth below:

- IBM is the largest supplier In terms of financial and material scope of IT services and platforms in the Company. The Company is connected (and occasionally enters into agreements as required and as applicable) with IBM in agreements to receive various services which it requires in the area of information systems, including agreements for the purchase of equipment, and its maintenance and the purchase of software and professional services. In addition, it should be noted that, as at the date of signing the

- IBM is the largest supplier In terms of financial and material scope of IT services and platforms in the Company. The Company is connected (and occasionally enters into agreements as required and as applicable) with IBM in agreements to receive various services which it requires in the area of information systems, including agreements for the purchase of equipment, and its maintenance and the purchase of software and professional services. In addition, it should be noted that, as at the date of signing the report, IBM is the Company's sole supplier of mainframe computers. Most of the agreements signed with IBM are for periods of three (3) to four (4) years (with some for shorter or longer periods). In addition, IBM supplies the Company with hosting services, including the rental of the building and the operation/maintenance of its infrastructure, of the Company's secondary computer center in Netanya (see "Fixed Assets" in the Corporate Governance Report).

- Oracle - The Company is engaged in a number of agreements in connection with Oracle products, including with regard to database infrastructure and a financial and logistic ERP system.

- Microsoft – The Company has a variety of software solutions from Microsoft, some for servers and some for solutions to servers and organizational systems, such as the CRM system, databases and operating systems. Since 2015, due to economies of scale and corporate procurement synergies, the Company's licensing agreement for Microsoft products (in terms of tariffs) has been subject to the agreement of Bank Hapoalim (in the way in which the Company bears all its charges directly vis-à-vis the supplier). The agreement in this format was extended in 2017 for an additional three (3) years, to the end of 2019, when the Company's software assets remain fully owned, even in the event of the Company's separation from Bank Hapoalim.

- Tera Data is the data warehouse platform in the Company.

- Commitment to receive sales services and customer service

According to the Company's assessment, the termination of the Company's engagement with any of the aforementioned technological service providers, without advance preparation, is liable to incur the Company significant costs and/or temporarily impair the continuity of the Company's operations and is also liable to adversely affect its results.

### Major planned projects

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

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

Customer and credit management system - In order to provide its customers with value, while adapting to their changing needs, the Company is in the process of improving and upgrading its computer systems, including intending to implement a customer and credit management system.

In order to preserve the variety of sources of finance, the Company takes care to diversify utilization of the sources of financing by using different sources of bank financing each time, as applicable. In addition, the Company uses a committed line of credit from the parent company and from an institutional entity and is working to ensure lines of liquidity and an expansion of the existing sources of finance through banks and other financial institutions.

In addition, the Company regularly tracks the mix of the sources of finance and has established limitations that are intended to ensure adequate dispersal of the sources of finance.

The Company, as part of the Bank Hapoalim Group, may be restricted periodically in receiving credit from other banking corporations due to the directives of the Banking Supervision Department, including, inter alia, restrictions affecting the ability of the banking corporations in Israel to extend credit in excess of certain amounts, including restrictions relating to the total amount of debt of a "single borrower" or "group of borrowers" (as these terms are defined in those directives). The Company believes that as of the reporting date, there is no effective restriction on the receipt of 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 recommendations to the Board of Directors on the various matters, as required.

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

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

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

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

## The credit card sector in Israel

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

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

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

**Significant regulatory changes in the credit card market in Israel**

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

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

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

**Technological developments**

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

**Changes in customer preferences and expectations**

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

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

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

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

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

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

## Economic and financial review

### Economic development in the domestic market

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

8.9%, seasonally adjusted, compared to the same period last year.

## Fiscal and monetary policy

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

### Inflation and exchange rate

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

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

### Developments in the Global Economy

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

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

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

## Regulatory proceedings

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

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

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

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

2. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 472 regarding acquirers and the acquiring of transactions in debit cards, pursuant to the provisions of the Banking Licensing Law. The directive relates to financial entities whose main activity is the acquiring of transactions in cards, and outlines the main rules for the acquiring activity. The directive eases some of the regulatory requirements imposed on credit card companies and acquirers, including easing capital requirements. In addition, the directive enables the acquirer to lease EMV-enabled terminals to businesses, subject to the terms of the directive. The directive also relates to various aspects which apply to acquirers and which previously appeared in Proper Conduct of Banking Business Directive No. 470 and details the provisions of Proper Conduct of Banking Business Directives which apply to a acquirer. Directive 470 extended the applicability of some of the protections contained in Cards Law to credit card holders, as well as to immediate debit card holders.

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

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

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

6. In August 2016, the Supervision of Regulated Financial Services Law was published, according to which, for the first time, a framework was established for regulating the non-bank and non-institutional credit market in Israel, as well as an extension in all matters related to the currency service providers sector. Those engaged in the granting of credit, as defined in the law, will be subject to a license requirement, with the exception of exemption for certain entities according to law, including auxiliary corporations and those who are "acquirers" pursuant to the Banking Licensing Law. In addition, those who are engaged in the currency service provider sector, in the receipt of deposits and in services, such as the issue of prepaid cards, will be subject to the license requirement for the provision of services in a financial asset. In relation to the granting of credit, the law came into effect on June 1, 2017, and in relation to services in a financial asset, the law will come into effect on June 1, 2018. On December 29, 2016, the law was amended, and the activities of cooperative societies engaged in deposit and credit services, and the issuance of credit cards by non-bank corporations, auxiliary corporations and other entities that received an exemption pursuant to the provisions of the law, were regulated. In addition, in January 2017, the law was amended and a chapter was added regulating a service for comparing financial expenses. In August 2017, an additional amendment to the law was published, which came into effect on February 1, 2018, according to which the operation of a system for mediation in credit between individual borrowers and borrowers (P2P) is subject to a license. As a rule, a banking corporation, an auxiliary corporation or an acquirer is not subject to a license to operate a credit broker. However, pursuant to the amendment to the law, banks and auxiliary corporations are prohibited from engaging in the operation of a credit broker, to control an operator of such a system and to hold the means of control therein, and if the system operator has sole influence over it, and if the operator of the system is an individual - to have influence over him, for a period of three years; (3) from the inception of the law. Notwithstanding the aforesaid, a bank that has received a banking

years; (3) from the inception of the law. Notwithstanding the aforesaid, a bank that has received a banking license from the inception of the law, as well as an auxiliary corporation, which immediately prior to the inception of the Strum Law, was controlled by a bank with a wide scope of activity, will during the year be able to hold up to twenty percent (20%) of a certain type of the means of control in the operator of a credit broker, providing that this does not give them control in the broker.

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

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

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

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

11. In February 2018, the Knesset Constitution Committee approved the Money Laundering Prohibition Order (Duties of Identification, Reporting and Record-Keeping of Credit Service Providers for the Prevention of Money Laundering and the Financing of Terrorism). The Order regulates the obligations with regard to the prohibition of money laundering and the financing of terrorism of an entity that is required to obtain a license to grant credit in accordance with Chapter C of the Supervision of Financial Services (Regulated Financial Services) Law, 2016, which is a body listed in the Third Schedule to the Prohibition of Money Laundering Law, as well as a provider of discounting services and an aggregator.

12. In July 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 367, "Digital banking ", as well as an amendment to the supplementary provisions of the said directive, including Proper Conduct of Banking Business Directive No. 420 regarding the sending of online communications (an additional amendment to the directive was published in January 2018). In addition, in August 2016, a

circular was published on the subject of "Types of accounts and conditions when the signature of a customer on an agreement is not required." The Directive on the subject "Digital banking" regulates the online activities of banking corporations with their customers, either an individual or a small business, and permits remote activity in a variety of banking services. Alongside the reliefs, the directive stipulates principles for risk management in online banking, both in the internal systems and processes in the banking corporation and in dealing with the customer. The directive came into effect in January 2017. In March 2017, an amendment to the directive was published. In January 2018, the Banking Supervision Department issued an amendment to the directive, including, inter alia, regulation regarding the sending of a voice message, as well as regulating the manner of transferring data regarding a balance in a current account from a banking corporation to a financial entity, pursuant to the provisions of the Strum Law.

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

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

15. In July 2017, the Knesset plenum approved in its first reading the Consumer Protection Law (Amendment No. 55) (Professional Human Response in a Call Routing System), according to which a company providing a telephone service that includes an automated routing system will enable the consumer, immediately after choosing the language in which the service will be provided, to receive a human response, at least, on issues of dealing with malfunctions, clarifying an account and terminating a commitment, while setting the maximum waiting period. Violation of the directive will enable the imposition of monetary sanctions on a business that is a corporation. In the deliberations of the Economics Committee, the Supervisor was requested, subject to the enactment of the law, to take steps to regulate the matter also in banking corporations.

16. Automated Banking Services Ltd. ("ABS") - ABS serves as a communications switch between merchants and acquirers. To the best of the Company's knowledge, in September 2017, the Bank of Israel determined that ABS would provide for no consideration the communications protocol which is used for making card

transactions available to all users in the market. In order to implement the transfer of the protocol, the Antitrust Authority ordered the establishment of an association to which ABS will transfer all of its rights in the communications protocol for no consideration. In accordance with the instructions of the Antitrust Authority, the association will enable any user of the protocol to join it at no cost, and that the voting rights in the association will be determined in a manner that gives appropriate representation to all users. Discussions are being held at the Card Committee in the Bank of Israel regarding the regulations.

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

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

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

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

## Disclosure regarding emphasis of matter paragraph of the Auditors

Sometimes, the independent auditor finds it appropriate to include a change from the usual standard version of the audit report by the addition of an emphasis of matter paragraph directing attention which is intended to emphasize a certain matter which significantly affects the financial statements and is included in a note to the financial statements. The addition of a paragraph directing attention, as aforesaid, does not affect the auditor's opinion. Therefore, this paragraph will come at the end of the auditor's report and will refer to the fact that the auditor's opinion is not qualified in this context. The auditors have directed attention to what is stated in Note 23C.2 regarding regulatory initiatives and Note 23D.15 to the financial statements regarding requests to approve a certain claim as a class action against the Company.

## Significant developments in income, expenses and other comprehensive income

**The Company's net profit** in 2017 amounted to NIS 252 million, compared with NIS 229 million in the corresponding period last year, an increase of 10.0%.

**The Company profit per share** in 2017 amounted to NIS 343, compared with NIS 311 in the corresponding period last year, an increase of 10.3%.

**The rate of return on net profit to average capital** stood at 9.6% in 2017, compared with 9.0% in 2016.

**The rate of return of profit before tax to average capital** stood at 13.2% in 2017, compared with 13.3% in 2016.

### Income and expenses

**Income from transactions in credit cards** in 2017 amounted to NIS 1,492 million, compared with NIS 1,433 million in 2016, an increase of 4.1%, arising from the following factors:

- **Income from merchants, net** – amounted to NIS 834 million, compared with NIS 833 million in 2016. The effects on income derived mainly from a fall in the rate of commission from merchants, offset by an increase in acquiring turnover of transactions at merchants connected to the Company in acquiring agreements.

- **Income in respect of credit card holders** – amounted to NIS 658 million, compared with NIS 600 million in 2016, an increase of 9.7%, deriving mainly from the effect of an increase in the turnover of transactions in cards of the Company in Israel which were acquired by other acquirers.

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

**Interest income, net** in 2017 amounted NIS 271 million, compared with NIS 233 million in 2016, an increase of 16.3%, deriving mainly from an increase in interest-bearing credit balances.

**Expenses in respect of credit losses** in 2017 amounted to NIS 109 million, compared with NIS 80 million in 2016, an increase of 36.3%, deriving mainly from an increase in the balance of write-offs which is mainly affected by challenges in the area of collection and an increase in the credit portfolio.

**Operating expenses** in 2017 amounted to NIS 580 million, compared with NIS 557 million in 2016, an increase of 4.1%. During the fourth quarter of 2017, in addition to the current salary expenses, a material amount of salary expenses were recorded in respect of the effect of the process of separation from the Bank Hapoalim employees on loan. As part of the preparations for the separation, the bank's loaned employees will return to the bank and / or retire from it, with some of the retirees due to be absorbed as employees of the Company. The aforesaid effect is in respect of the retirement costs of these employees. See also Note 20i. of the financial statements below.

In addition, during December 2017, a new collective agreement was signed for a period of six years. See section "Collective agreements" in the section "Human capital" in the Corporate Governance Report below. Some of the effects of this agreement are included in salary expenses in the fourth quarter of 2017.

**Selling and marketing expenses** in 2018 amounted to NIS 318 million, compared with NIS 265 million in 2016, an increase of 20.0%. The item was also affected during the fourth quarter of 2017 beyond the current activity by the renewal and new agreements with non-bank business partners, in the area of card issuance, and by benefits to credit card holders. With regard to an increase in salary expenses, see explanation above.

**General and administrative expenses** in 2017 amounted to NIS 79 million, compared with NIS 70 million in 2016, an increase of 12.9%, deriving mainly from an increase in salary expenses. See explanation above.

**Payments to banks** in 2017 amounted to NIS 371 million, compared with NIS 399 million in 2016, a decrease of 7.0%, deriving, inter alia, from the adjustment of agreements to changes in the characteristics of issuance.

**Provision for taxes on profit** in 2017 amounted to NIS 97million, compared with NIS 111 million in 2016. The effective tax rate of the total profit from operations before taxes reached 27.9%, compared with 32.7% in 2016. The change stems mainly from a decrease in the Companies Tax rate in 2016, which led to a decrease in the balance of net deferred taxes of NIS 12 million.. (In a subsidiary, which is a financial institution, as defined in the Value Added Tax Law, 1975, the historical tax rate in 2017 stood at 35.04%, compared with 35.9% in 2016). For additional details, see Note 9 in the Financial Statements below.

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

## Development in comprehensive income

**Adjustments in respect of the presentation of available-for-sale securities at fair value, net,** in 2017 amounted to income of NIS 3 million, compared with NIS 1 million in 2016.

**Adjustments of liabilities due to employee rights, net,** in 2017 amounted to a positive amount of NIS 7 million, deriving from amortization of an actuarial loss to the profit and loss account, compared with a negative amount of NIS 35 million in 2016, deriving from an actuarial loss in 2016.

## Table 2: Operating data

Number of credit cards (in thousands)

Number of valid credit cards as of December 31, 2017

| | Active cards | Inactive cards | Total |
|---|---|---|---|
| Bank cards | 2,593 | 545 | 3,138 |
| **Non-bank cards** | | | |
| Credit risk on the Company | 689 | 407 | 1,096 |
| Credit risk on others | 55 | 83 | 139 |
| | 744 | 490 | 1,234 |
| **Total** | **3,337** | **1,035** | **4,372** |

Number of valid credit cards as of December 31, 2016

| | Active cards | Inactive cards | Total |
|---|---|---|---|
| Bank cards | 2,480 | 525 | 3,005 |
| Non-bank cards – | | | |
| Credit risk on the Company | 683 | 411 | 1,094 |
| Credit risk on others | 53 | 70 | 123 |
| | 736 | 481 | 1,217 |
| **Total** | **3,216** | **1,006** | **4,222** |

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

| | For the year ended December 31 | |
|---|---|---|
| | **2017** | **2016** |
| Bank cards | 102,014 | 96,094 |
| Non-bank cards – | | |
| Credit risk on the Company | 17,314 | 16,390 |
| Credit risk on others | 1,563 | 1,330 |
| | 18,877 | 17,720 |
| **Total** | **120,891** | **113,814** |

## 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 year, which was used to execute transactions during the last quarter of the reported year.

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

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

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

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

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

The Company applies the provisions of Item 350 in the Codification regarding "Intangible Assets, goodwill and others". In view of the accounting complexity in the process of capitalizing software costs, and in light of the materiality of the amounts of the software costs capitalized, the Banking Supervision Department has provided directives for the Company on the topic of capitalization of software costs, according to a materiality threshold that was 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 systems: Software acquisition, products, and project manpower. Development of new systems for internal use, purchasing of new systems, purchasing of new products, and personnel developing new systems and products.

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

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

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

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

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

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

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

Expenses incurred for the maintenance and development of information-technology and assets in respect of Information Technology in 2017 are detailed below:

**Expenses in respect of the 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 | 27 | 10 | 4 | 41 |
| Expenses for acquisition or usage licenses not capitalized as assets | 30 | - | - | 30 |
| Outsourcing expenses | 44 | - | - | 44 |
| Depreciation expenses | 52 | 16 | - | 66 |
| Other expenses | 2 | 4 | 12(2) | 18 |
| **Total** | **155** | **30** | **16** | **201** |

**Additions to assets (3) in respect of the Information Technology Department not allocated as expenses (in NIS millions)**

| | Software | Hardware (1) | Other | Total |
|---|---|---|---|---|
| Costs of wages and related costs | 10 | - | - | 10 |
| Outsourcing costs | 27 | - | - | 27 |
| Costs of acquisition or usage licenses | 36 | 9 | - | 45 |
| Costs of equipment, buildings, and land | - | - | 1 | 1 |
| **Total** | **73** | **9** | **1** | **83** |

**Balances of assets (3) in respect of the Information Technology Department (in NIS millions)**

| | Software | Hardware (1) | Other | Total |
|---|---|---|---|---|
| Total depreciated cost | 134 | 20 | - | 154 |
| Of which: in respect of wages and related costs** | 91 | - | - | 91 |

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to sister company.

(3) Including prepaid information technology expenses

# Table 3: Investments and expenses of the Company in respect of Information Technology (cont.)

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 the 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 | 16 | 9 | 4 | 29 |
| Expenses for acquisition or usage licenses not capitalized as assets | 27 | - | - | 27 |
| Outsourcing expenses | 49 | - | - | 49 |
| Depreciation expenses | 53 | 20 | - | 73 |
| Other expenses | 3 | 4 | 8(2) | 15 |
| **Total** | **148** | **33** | **12** | **193** |

**Additions to assets (3) in respect of the Information Technology Department not allocated as expenses (in NIS millions)**

| | Software | Hardware (1) | Other | Total |
|---|---|---|---|---|
| Costs of wages and related costs | 15 | - | - | 15 |
| Outsourcing costs | 29 | - | - | 29 |
| Costs of acquisition or usage licenses | 28 | 18 | -* | 46 |
| Costs of equipment, buildings, and land | - | - | 1 | 1 |
| **Total** | **72** | **18** | **1** | **91** |

**Balances of assets (3) in respect of the Information Technology Department (in NIS millions)**

| | Software | Hardware (1) | Other | Total |
|---|---|---|---|---|
| Total depreciated cost | 119 | 30 | - | 149 |
| Of which: in respect of wages and related costs** | 87 | - | - | 87 |

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to sister company.

(3) Including prepaid information technology expenses

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

The Company has guarantees and other liabilities in respect of:

- Exposure to guaranteed cheques as of December 31, 2017 amounting to NIS 41 million compared with NIS 54 million at the end of 2016, a decrease of 24.1%.

- Liability in respect of factoring, including procurement factoring, as of December 31, 2017 amounting to NIS 131 million, similar to last year.

# Development of assets and liability, capital and capital adequacy

## Debtors in respect of credit card activity

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

Debtors' balances in respect of credit cards to private persons under the responsibility of the Company as of December 31, 2017 stood at NIS 1,762 million, compared with NIS 1,650 million at the end of 2016, an increase of 6.8%

Debtors' balances in respect of commercial credit cards under the Company's responsibility as of December 31, 2017 stood at NIS 167 million, compared with NIS 168 million at the end of 2016, a decrease of 0.6%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2017 stood at NIS 10,066 million, compared with NIS 9,719 million at the end of 2016, an increase of 3.6%.

Balances of credit to private persons under the Company's responsibility as of December 31, 2017 stood at NIS 2,370 million, compared with NIS 2,078 million at the end of 2016, an increase of 14.1%, attributable to the Company increased activity in this area.

Commercial credit balances under the Company's responsibility as of December 31, 2017 stood at NIS 1,083 million, compared with NIS 1,074 million at the end of 2016, an increase of 0.8%.

Credit balances under banks' guarantee as of December 31, 2017 stood at NIS 63 million, compared with NIS 74 million at the end of 2016, a decrease of 14.9%.

The balance of the credit loss allowance for debtors in respect of credit cards to private persons under the Company's responsibility as of December 31, 2017 stood at NIS 41 million, compared with NIS 37 million at the end of 2016, an increase of 10.8%.

The balance of the credit loss allowance for debtors in respect of commercial credit cards as of December 31, 2017 stood at NIS 3 million, similar to the amount at the end of 2016.

The balance of the credit loss allowance in respect of credit to private persons under the Company's responsibility as of December 31, 2017 stood at NIS 90 million, compared with NIS 76 million at the end of 2016, an increase of 18.4%.

The balance of the credit loss allowance in respect of commercial credit under the Company's responsibility as of December 31, 2017 stood at NIS 29 million, compared with NIS 22 million at the end of 2016, an increase of 31.8%.

The balance of the credit loss allowance in respect of credit risk under the guarantee of banks and others as of December 31, 2017 stood at NIS 13 million, compared with NIS 12 million at the end of 2016, an increase of 8.3%.

### 2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2017 amounted to NIS 276 million, compared with NIS 246 million at the end of 2016, an increase of 12.2%.

- The balance of impaired debts as of December 31, 2017 amounted to NIS 36 million, compared with NIS 27 million at the end of 2016, an increase of 33.3%.

- The balance of substandard debts as of December 31, 2017 amounted to NIS 26 million, compared with NIS 21 million at the end of 2016, an increase of 23.8%

- The balance of debts under special supervision as of December 31, 2017 amounted to NIS 214 million, compared with NIS 198 million at the end of 2016, an increase of 8.1%

## Additional balance sheet items

**Cash and deposits in banks** as of December 31, 2017 amounted to NIS 104 million, compared with NIS 109 million at the end of 2016.

**Securities in the available-for-sale portfolio** as of December 31, 2017 amounted to NIS 26 million, compared with NIS 20 million at the end of 2016.

**Buildings and equipment** as of December 31, 2017 amounted to NIS 267 million, compared with NIS 264 million at the end of 2016.

**Other assets** as of December 31, 2017 amounted to NIS 740 million, compared with NIS 571 million at the end of 2016, of which factoring (including procurement factoring) amounted to NIS 459 million and NIS 309 million, respectively.

**Credit from banking corporations** as of December 31, 2017 amounted to NIS 2,017 million, compared with NIS 1,222 million at the end of 2016.

**Creditors in respect of credit card activity** as of December 31, 2017 amounted to NIS 12,104 million, compared with NIS 12,089 million at the end of 2016. This amount includes mostly the balances for payment to merchants for transactions of credit card holders, which, as of the balance sheet date, had not yet been paid.

**Other liabilities** as of December 31, 2017 amounted to NIS 1,073 million, compared with NIS 1,082 million at the end of 2016. Of this, creditors for gift certificates and prepaid cards amounted to NIS 150 million and accrued expenses in respect of salary and related expenses amounted to NIS 114 million. (in 2016 – creditors for gift certificates and prepaid cards 143 million and accrued expenses in respect of salary and related expenses NIS 111 million).

### 3. Off-balance sheet credit

**Balances of unutilized credit facilities under the Company's responsibility** as of December 31, 2017 stood at NIS 9,190 million, compared with NIS 9,201 million at the end of 2016, a decrease of 0.1%.

**Balances of unutilized credit facilities under bank guarantee** as of December 31, 2017 stood at NIS 19,684 million, compared with NIS 19,031 million at the end of 2016, an increase of 3.4%.

**Balances of the credit loss allowance in respect of unutilized credit facilities of Company** as of December 31, 2017 stood at NIS 10 million similar to the amount at the end of 2016.

### Additional off-balance sheet items

**Exposure in respect of facilities to merchants** as of December 31, 2017 amounting to NIS 125 million, compared with NIS 144 million at the end of 2016, a decrease of 13.2%.

**Exposure in respect of other liabilities and guarantees** as of December 31, 2017 amounting to NIS 216 million, compared with NIS 213 million at the end of 2016, an increase of 1.4%.

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

## Capital, Capital Adequacy and Leverage

Applicability of Implementation

The Company is subject to measurement and capital adequacy requirements. The Company has consolidated subsidiaries, as follows: Isracard Mimun, Isracard Nechasim, Europay, Tzameret Mimunim and Global Factoring.

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

**Shareholders' equity, Tier 1 capital** at December 31, 2017 amounted to NIS 2,707 million, compared with NIS 2,680 million at December 31, 2016, an increase of 1.0%.

**Overall capital** at December 31, 2017 amounted to NIS 2,852 million, compared with NIS 2,817 million at December 31, 2016, an increase of 1.2%.

**Risk assets in respect of credit risk** at December 31, 2017 amounted to NIS 11,539 million, compared with NIS 10,940 million at December 31, 2016, an increase of 5.5%.

**Risk assets in respect of market risk** for 2017 amounted to NIS 41 million, compared with NIS 19 million at December 31, 2016, an increase of 115.8%.

**Risk assets in respect of operating risk** at December 31, 2017 amounted to NIS 2,071 million, compared with NIS 1,963 million at December 31, 2016, an increase of 5.5%.

**The overall capital to risk components ratio** at December 31, 2017 amounted to 20.9%, compared with 21.8% at December 31, 2016.

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

# Table 4: Capital adequacy (1)

**1. Capital for capital ratio computation purposes**

| | December 31 | |
|---|---|---|
| | **2017** | **2016** |
| | **NIS in millions** | |
| Tier 1 shareholders' equity and Tier 1 capital after deductions | 2,707 [(3)] | 2,680 |
| Tier 2 capital | 145 | 137 |
| **Total overall capital** | **2,852** | **2,817** |

**2. Weighted balances of risk assets**

| | December 31 | |
|---|---|---|
| | **2017** | **2016** |
| | **NIS in millions** | |
| Credit risk | 11,539 | 10,940 |
| Market risks | 41 | 19 |
| Operating risk | 2,071 | 1,963 |
| **Total weighted balances of risk assets** | **13,651** | **12,922** |

**3. Capital to risk elements ratio**

| | December 31 | |
|---|---|---|
| | **2017** | **2016** |
| | **NIS in millions** | |
| Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio | 19.8% | 20.7% |
| Overall capital to risk elements ratio | 20.9% | 21.8% |
| Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (2) | 8.0% | 8.0% |
| Minimum overall capital ratio required by the Banking Supervision Department (2) | 11.5% | 11.5% |

(1) Calculated pursuant to Proper Conduct of Banking Management Regulation Nos. 201-211 and 299 "Measurement and Capital Adequacy". In addition, these figures include adjustments in respect of the streamlining plan, which were established in line with the Supervisor's letter dated January 12, 2016 regarding "Operational Streamlining of the Banking System in Israel", which are credited at equal ratios.

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

(3) In March 2017, the Company distributed a dividend to its shareholders amounting to NIS 230 million.

## Minimum capital ratios

On May 30, 2013, the Banking Supervision Department published a circular regarding minimum capital ratios for all banking corporations and credit card companies in preparation for the implementation of the Basel III directives. Pursuant to the circular, all banking corporations and credit card companies 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, this as of January 1, 2017.

In May 2016, the Banking Supervision Department published Proper Conduct of Banking Management Directive No. 472 regarding “Acquirers and Acquiring of Debit Card Transactions”, which include a relief for the acquirer regarding the shareholders' equity requirement, 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, the Tier 1 Shareholders' Equity ratio shall not be less than 8% and the overall capital ratio shall not be less than 11.5%. This Directive entered into effect on June 1, 2016.

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

## Capital adequacy target

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

The Company's capital adequacy targets are as follows:

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

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

## Capital management

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

Capital management should therefore:

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

## Guiding principles in capital management

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

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

## Capital adequacy

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

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

## Liquidity coverage ratio

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

## Leverage ratio

As of April 1, 2015, the Company has implemented the provisions of Proper Conduct of Banking Management Regulation No 218 "Leverage Ratio " (hereinafter: "the provision") .The provision established a simple, transparent, non-risk based leverage ratio, which will act as a supplementary and reliable measurement to the risk-based capital requirement and which is intended to restrict the accumulation of leverage in the banking corporation and credit card company (hereinafter: "banking corporation"). The leverage ratio is expressed in percentage terms, and is defined as the ratio between the measurement of capital and the measurement of exposure. For further details, see Note 22 to the financial statements below.

## Dividend distribution

In March 2017, after the approval of the Board of Directors and the General Meeting, the Company distributed a dividend of NIS 230 million to its shareholders. In 2016 and in 2018 (through the date of signing this report) the Company did not distribute additional dividends to its shareholders.

# Operating Segments

## General

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

## Seasonality

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

## Interchange fee arrangements

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

**Interchange fee arrangements in the "Mastercard" and "Visa" brands and in immediate debit transactions**

For further details, see section "Regulatory proceedings".

### Summary of user arrangements of the license for the "Isracard" brand and related interchange fee

In 2012, Isracard entered into (separate) agreements with Leumi Card and with CAL (in this section, Isracard and Leumi Card or Isracard and CAL – hereinafter: "**the parties**", as applicable), pursuant to which, inter alia, Leumi Card and CAL were granted by Isracard a license to acquire "Isracard" brand cards (in this section: "**interchange acquiring of the Isracard brand**") and the "**Agreement**" or "**the Agreements**", as applicable). Further to the signing of the Agreements and at the request of the parties, during that year, they were given an exemption of the Antitrust Commissioner from a restrictive agreement in relation to certain provisions stipulated in the Agreements relating to the interchange acquiring of the Isracard brand. The aforesaid exemption was renewed in March 2017, until May 15, 2018 (in this section: hereinafter: "**the Exemption**").

Pursuant to the Exemption, according to its terms, as of the date of signing the report, restrictions are placed on the parties, inter alia, as follows: (1) Isracard will be entitled to collect from Leumi Card and CAL only the following amounts: an interchange fee at a rate not exceeding the rates provided in the interchange fee arrangement, as approved in the judgment of the Antirust Tribunal in March 2012 as mentioned above under the heading "Interchange fee arrangements in the "Mastercard" and "Visa" brands, and the payment computed at a certain rate of the acquiring turnover of "Isracard" brand cards by Leumi Card and CAL (and which will not exceed the rate that Isracard actually pays to MC in respect of the acquiring turnover of the "Isracard" brand cards issued by it, and in any case, not more than a certain rate provided in the Exemption); (2) restrictions on the transfer of data between them, inter alia, in connection with the terms of engagement of the parties with their customers and suppliers; and (3) the interchange acquiring of the "Isracard" brand will be subject to the interchange acquiring in the "Visa" and "Mastercard" brands. As of the date of signing the report, the license period in the said Agreements with Leumi Card and CAL is until May 2018. The license period in relation to Leumi Card will be renewed automatically for additional periods of twelve (12) months each, unless one of the parties notifies the counterparty in writing, at least one hundred and eighty (180) days before the end of the relevant license period, of his desire not to renew the license period for an additional year. In such a case, the license period and the Agreement will come to an end at the end of the license period.

**Regulation of the activity of aggregators**

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

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

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

**Regulation of the activity of a hosted acquirer**

A hosted acquirer is an acquirer who is directly connected to the payments system and executes acquiring activity through another acquirer. Pursuant to the Strum Law, various directives in connection with the regulation of the engagement of hosted acquirers with existing acquirers, including the imposition of restrictions on the refusal of an acquirer to enter into an agreement with a hosted acquirer for irrational reasons, have been established. For further details, see the provisions of the Strum Law in this context in section "Regulatory proceeding" in the Report of the Board of Directors.

**Grant of a license to a new acquirer**

According to an announcement on the Bank of Israel website, in April 2017, Tranzila received an acquirer's license from the Bank of Israel. To the best of the Company's knowledge, as of the date of signing the report, Tranzila has not commenced its activity as an acquirer by virtue of the license granted to it. In September 2017, Jerusalem Bank announced that it had received an issuer's license from MC and that it would commence the issuance of credit cards using a foreign company as an issuance operator.

**The Issuance Segment**

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

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

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

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

## Products and Services

The Company issues and operates credit cards of the brands: "Isracard", "Mastercard", and "Visa", which are issued both as non-bank cards and bank cards (for local use and/or international use, as applicable). Under each of the said brands, the Company offers a range of cards (such as, Platinum cards, Gold, etc.) In each of the cards as aforesaid, the Company offers its customers, in addition to the use of a means of payment, additional value offers, whether as part of the Company's benefit program or part of the customer clubs. In addition, the Company offers additional products and services, such as refueling cards and devices, gift cards, designated procurement cards, rechargeable cards and information services and certifications/

## Segmentation of Income from Products and Services

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

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

For details regarding the segmentation of income from credit card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see Table 4 "Operational Data" in the section "Significant developments in income, expenses and other comprehensive", income above.

## Marketing and Distribution

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

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

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

The Company strives to maintain leadership in the digital arena and in the area of mobile payments. As part of its activity in this area, the Company offers several innovative products: "Isracard-at-a-Click" service (an innovative chat service on the Internet and an application with a smart digital representative which allows the receipt of complete information on transactions, making contact with the customer service. "SMS" service (information on transactions executed by "SMS" in accordance with the customer's definition)., etc.

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

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

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

## Profit and profitability – Issuance sector

**Net profit of the sector** amounted NIS 116 million, compared with NIS 97 million in 2016, an increase of 19.6%.

The rate of return of net profit to average capital amounted to 7.6%, compared with 6.2% in 2016.

### Development of income and expenses

**Income of the sector** amounted to NIS 1,196 million, compared with NIS 1,142 million in 2016, an increase of 4.7%.

**Income from fees** amounted to NIS 1,218 million, compared with NIS 1,149 million in 2016, an increase of 6.0%.

**Net interest expenses** amounted to NIS 3 million in 2017, compared with NIS 1 million in 2016, an increase of 200%.

**Other expenses** amounted to NIS 19 million, compared with NIS 6 million in 2016, an increase deriving mainly from exchange rate differences.

**Expenses of the segment, before payments to banks** amounted to NIS 664 million, compared with NIS 608 million in 2016, an increase of 9.2%

**Expenses of the segment, including payments to banks** amounted to NIS 1,043 million, compared with NIS 1,004 million in 2016, an increase of 3.4%.

**Expenses in respect of credit losses** amounted to NIS 27 million, compared with NIS 21 million in 2016, an increase of 28.6%.

**Operating expenses** amounted to NIS 358 million, compared with NIS 351 million in 2016, an increase of 2.0%.

**Selling and marketing expenses** amounted to NIS 240 million, compared with NIS 198 million in 2016, an increase of 21.2%. The item was impacted during the fourth quarter of 2017 beyond the current activity both from renewing and making new agreements with non-bank business partners in the area of the issuance of cards and from benefits to credit card holders.

**General and administrative expenses** amounted to NIS 39 million, compared with NIS 38 million in 2016, an increase of 2.6%.

**Payments to banks** amounted to NIS 379 million, compared with NIS 396 million in 2015, a decrease of 4.3%, arising from, inter alia, the adaptation of arrangements for changes in the issuing features.

**The income to expenses ratio, before payments to banks** reached 55.5%, compared with 53.2% in 2016.

**Profit for the sector before taxes** amounted NIS 153 million, compared with NIS 138 million in 2016, an increase of 10.9%.

**The provision for tax on profit in the sector** amounted to NIS 37 million, compared with NIS 41 million in 2016, a decrease of 9.8%.

### Customers – Cardholders

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

For further details regarding the issuance segment, including critical success factors, main barriers to entry, substitutes for products of the segment; competition, see chapter "Description of the Company's Business according to Operating Segments" in the Corporate Governance Report under the heading "Issuance segment ". For details regarding trends and regulatory changes which are expected to impact the Group's activity in the area, see section "Regulatory proceedings" in the Report of the Board of Directors.

### Acquiring segment

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

### Products and services

Further to the traditional acquiring services provided by the Company to merchants, the Company offers other services, such as:

- Acquiring services, such as Payware, an application for acquiring from the mobile in a secured manner, including a card reader connected to the mobile, which is intended for small businesses with a small number of daily transactions, and for seasonal or mobile businesses; Network payment - a component for payment by credit card that enables the honoring of a credit card on existing websites; Kindergarten payment – a digital system for honoring credit cards for parents' payments in kindergartens, extramural activities and institutions; acquiring gift cards and rechargeable cards issued by the Company.

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

### Segmentation of income from products and services

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

For details regarding the segmentation of income from credit card transactions, see Note 3 to the Financial Statements. In addition, with regard to data on the turnover of transactions in credit cards issued by the Company, see "Table 4: Operational Data," above in the section "Significant developments in income, expenses and other comprehensive income ", above.

### Marketing and sales

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

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

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

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

### Profit and Profitability – Acquiring segment

**The net profit of the segment** amounted to NIS 20 million, compared with NIS 23 million in 2016, a decrease of 13.0%.

**The rate of return on net profit to average capital** stood at 10.4%, compared with 11.4% in 2016.

### Development of income and expenses

**Income of the segment** amounted to NIS 284 million, compared with NIS 288 million in 2016, a decrease of 1.4%.

**Income from fees** amounted to NIS 273 million, compared with NIS 284 million in 2016, a decrease of 3.9%.

**Interest expenses, net**, amounted to an expense of NIS 2 million, compared with NIS 1 million in 2016.

**Other income** amounted to NIS 13 million, compared with NIS 5 million in 2016, an increase of 160%.

**Expenses of the segment before payments to banks** amounted to NIS 266 million, compared with NIS 252 million in 2016, an increase of 5.6%

**Expenses of the segment, including payments to banks** amounted to NIS 258 million, compared with NIS 255 million in 2016, an increase of 1.2%.

**Expenses in respect of credit losses** amounted to NIS 1 million, compared with NIS 2 million in 2016, a decrease of 50%.

**Operating expenses** amounted to NIS 180 million, compared with NIS 174 million in 2016, an increase of 3.4%.

**Selling and marketing expenses** amounted to NIS 57 million, compared with NIS 52 million in 2016, an increase of 9.6%.

**General and administrative expenses** amounted to NIS 28 million, compared with NIS 24 million in 2016, an increase of 16.7%.

**Payment to bank**s amounted to income of NIS 8 million, compared with an expense of NIS 3 million in 2016.

**The ratio of expenses to income in the segment before payments to banks** reached 93.7%, compared with 87.5% in 2016.

**Profit for the segment before taxes** amounted to NIS 33 million, compared with NIS 33 million in 2016, a decrease of 21.2%

**The provision for taxes in the segment** amounted to NIS 6 million, compared with NIS 10 million in 2016, a decrease of 40%.

## Customers

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

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

## Financing segment

The financing segment is focused on the provision of services and solutions through products tailored to customers' requirements. The Company offers its customers credit products which address their needs and are appropriate to their classification (private, business, backed up/ not backed up by vouchers), to their financial condition and repayment capability.

The sector comprises two sub-groups which are determined according to the nature of the customer's activity, as follows: (1) credit to private customers who usually operate with relatively low monetary amounts and (2) business credit to merchants whose credit requirements are usually intended for financing their business activity. From the nature of things, there is a difference between the types of credit products to these two groups.

All of the income and expenses attributable in respect of the Company's interest-bearing activity, including the discounting activity, forward payments, factoring, including procurement factoring, "revolving credit" and loans of various types, including credit in cards, are attributed to the financing segment.

## Prominent trends in recent years in the area of financing

In recent years, there has been a significant increase in credit granted to the business (non-financial) segment and to the household segment. Most of the growth in the volume of credit to the business segment is attributed to non-bank credit and to a more moderate level of credit provided by the banking system. Non-bank credit has grown in recent years, inter alia, thanks to the entry of non-bank entities into the credit market for individuals and small businesses with regulatory encouragement. Such regulatory initiatives can include, inter alia, a change in the ceiling of the non-bank interest rate (which includes raising the interest ceiling on non-bank credit and applying the ceiling to banking institutions with the aim of equalizing the terms of credit between banking and non-bank entities); raising bonds against non-bank loans (Nawi Law); credit funds for small businesses under State guarantee in collaboration with institutional bodies, creation of a national credit database, inter alia, to promote competition in credit for private individuals and credit for small businesses. etc.

In light of the increase in credit to the various segments (business and households), the regulatory support and various technological developments, the non-bank credit market has developed rapidly in recent years, attracting new players, and accordingly, the competition in the sector is intensifying. For further details regarding the aforementioned technological and regulatory trends in the area of financing, see section "Trends, phenomena, significant developments and changes" and "Regulatory proceedings" in the Report of the Board of Directors.

**Products and services**

In the context of this segment, the Company offers various financial services to both private individuals and merchants. The following is a summary of the main financial services, as aforesaid:

### Main credit products to private individuals

- Interest-bearing credit in the framework of non-bank credit cards, such as: "revolving credit" / fixed monthly refund (repayment of a fixed rate or amount of the accrued debt according to the customer's choice); credit in installments - a payment that applies from the month following the date of the transaction; transfer to credit – spreading payments of a specific transaction/ part or all of the debit initiated by the customer and at his option (for credit in installments or flexible credit or deferral of payment by a month); quick credit - credit extended to the customer on the basis of his available facility in the card.

- Any-purpose loans without collateral: loans (in amounts of up to NIS 80 thousand and for periods of up to 60 months), extended according to the customer's risk rating, in accordance with the work procedures and the generally accepted hierarchy of authorities in the Company; and designated loans, without a card, for the purchase of specific products through the merchant that markets them.

- Car purchase loans: loans to finance the purchase of vehicles when the vehicles are mortgaged as collateral until maturity. These loans are granted for varying periods and rates of financing, which are periodically reviewed, inter alia, taking into account regulatory directives in connection with this type of loans.

### Business credit products

- Credit not backed by credit card vouchers: (1) Loans - fixed-rate, shekel loans at variable interest, fixed or fixed linked to the CPI for periods of up to sixty (60) months; (2) Business cards - a credit facility in a business card for the purpose of current purchases for businesses, whether or not they are connected with the Company in an acquiring agreement. The card is charged directly from the merchant's bank account.

- Credit backed by credit card vouchers: (1) prepayments – introduction of a basket of payments accrued for a merchant in respect of transactions executed with credit cards; (2) Discounting of credit card vouchers - discounting a transaction voucher in a credit card and crediting the merchant on the date determined for all transaction payments. The Company operates in the area of discounting both through Isracard and through Tzameret Mimunim.

- Factoring activity: Factoring activity consists of two main factors: the banking system and non-banking financing entities. In recent years, the volume of activity turnover in the area has been steadily increasing, and regulatory regulation of the activity of the non-bank financing entities is also being implemented, which is also contributing to the improvement of the sector's image. According to the Company's assessment, the financial situation in the Israeli economy, together with the increased regulatory requirements applicable to banking corporations, may increase the need to find non-bank financing sources, and consequently, increase the volume of activity in the area of factoring and non-bank credit in the market.

### Segmentation of income from products and services

All income and expenses attributed to the interest-bearing credit activity of the Company were assigned to the financing segment, including discounting, advance payments, factoring (including procurement factoring), revolving credit, and loans of various types, including credit in cards, and the attribution of various operating expenses. For details regarding the segmentation of income and interest expenses, see Note 4 to the Financial Statements

## Marketing and sales

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

## Profit and profitability – Financing segment

**Net profit of the segment** amounted to NIS 87 million, compared with NIS 83 million in 2016, an increase of 4.8%.

**Rate of return on net profit to average capital** amounted to 10.0%, compared with 11.2% in 2016.

## Development of income and expenses

**Income of the segment** amounted to NIS 283 million, compared with NIS 240 million in 2016, an increase of 17.9%.

**Interest income, net**, amounted to NIS 276 million, compared with NIS 235 million in 2016, an increase of 17.4%.

**Other income** amounted to NIS 6 million, compared with NIS 5 million in 2016, an increase of 20%.

**Expenses of the** segment amounted to NIS 155 million, compared with NIS 110 million in 2016, an increase of 40.9%.

**Expenses in** respect **of credit losses** amounted to NIS 81 million, compared with NIS 57 million in 2016. The increase of 42.1% is primarily attributable to an increase in balance of write-offs which were impacted by the increase in the credit portfolio, and challenges in the area of collection.

**Operating** expenses amounted to NIS 41 million, compared with NIS 30 million in 2016, an increase of 36.7%.

**Selling and marketing expenses** amounted to NIS 21 million, compared with NIS 15 million in 2016, an increase of 40%.

**General and administrative expenses** amounted to NIS 12 million, compared with NIS 8 million in 2016, an increase of 50%.

**The ratio of expense to income in the segment** reached 54.8% compared with 45.8% in 2016.

**Profit of the segment before taxes** amounted to NIS 128 million, compared with NIS 130 in 2016, a decrease of 1.5%.

**The provision for taxes on profit in the segment** amounted to NIS 41 million, compared with NIS 47 million in 2016, a decrease of 12.8%.

## Customers

The Company's customers in the financing segment include numerous merchants and private customers. These customers are segmented according to their risk rating, which is based on an internal risk rating model of the

Company.

Pursuant to Proper Conduct of Banking Business Directive No. 313, at the date of signing the report, there is no group of borrowers exceeding fifteen percent (15%) of the Company's capital (as defined in Directive 313). See in this context the section "Risk Review" section of the Directors' Report under the heading "Credit Risk".

For further details regarding the financing segment, including legislative restrictions, standards and special constraints applicable to the segment; critical success factors and competition, see the section "Description of the Company's business by operating segments" in the Corporate Governance Report under the heading "Financing segment". For details regarding regulatory trends and changes that are expected to impact the Company's activity in the sector, see the section "Regulatory proceedings" above.

### Other segment

The other activities of the Company, which do not belong to the issuance, acquiring and/or financing segments, each of which do not amount to a reportable segment, include, inter alia, the activities of Isracard Nechasim, the Company's activity in the area of guaranteeing payment of cheques and their discounting, and the acquiring of "Visa" travelers' cheques issued in the past.

### Profit and profitability - Other segment

**Net profit of the segment** amounted to NIS 29 million, compared with NIS 26 million in 2016, an increase of 11.5%.

**The rate of return on the net profit to average capital** stood at 74.1%, compared with 67.5% in 2016.

### Development of income and expenses

**Income of the segment** amounted NIS 42 million, compared with NIS 40 million in 2016, a decrease of 75.0%.

**Expenses of the segment** amounted to NIS 1 million, compared with NIS 2 million in 2016, a decrease of 50%.

**The ratio of income to expense in the segment** amounted to 2.4%, compared with 5.0% in 2016.

**Profit of the segment before taxes** amounted to NIS 41 million, compared with NIS 38 million in 2016, an increase of 7.9%.

**The provision for taxes on profit of the segment** amounted to NIS 13 million similar to 2016.

## Activity of principal investee companies

The Company has a number of wholly-owned subsidiaries, the main ones being detailed below. In addition, the Company has a number of investments in other companies at rates of holding of up to 20% of their issued share capital. It should be noted that pursuant to the investment agreements in some of the said companies, the Company has rights to increase its share in capital subject to the provisions of any law, as well as surplus rights to profits in those companies (if any) in excess of its share in the capital, all subject to the conditions prescribed. See also Note 14 to the financial statements below.

- **Isracard Mimun Ltd.** (hereinafter - "**Isracard Mimun**") - was established in 2004 and is a wholly-owned and controlled subsidiary of Isracard, As at the date of signing the report, Isracard Mimun is a financial institution (as this term is defined in the Value Added Tax Law). Isracard Mimun is engaged in the provision of credit to non-bank credit card holders in the Group, in the provision of loans to merchants that acquire transactions through the Group, and in the provision of credit to private customers by means other than by credit card.

The contribution of net profit of Isracard Mimun to the Company's results of operation amounted NIS 69 million, compared with NIS 63 million in 2016.

The Company's total investments in Isracard Mimun amounted to NIS 288 million at December 31, 2017, compared with NIS 219 million in 2016.

- **Tzameret Mimunim Ltd**. ("**Tzameret Mimunim**") **-** was established and incorporated in 1999 and is a wholly-owned and controlled subsidiary of Isracard. As of the date of signing this report, Tzameret Mimunim is an auxiliary corporation (as this term is defined in the Banking Licensing Law). Tzameret Mimunim operates in the non-bank credit market (vis-à-vis all the acquiring merchants, regardless of the acquiring company with which the merchant is connected), mainly in the area of discounting credit card transactions and non-bank loans to merchants with whom they are connected in agreements for discounting vouchers.

  The contribution of net profit of Tzameret Mimunim to the Company's results of operation amounted to NIS 7 million, compared with NIS 8 million in 2016.

  The Company's total investments in Tzameret Mimunim amounted to NIS 125 million at December 31, 2017, compared with NIS 118 million in 2016.

- **Global Factoring Ltd**. (hereinafter: "**Global**") **-** was established in 2005 and is a wholly-owned and controlled subsidiary of Isracard, and, as of the date of signing the report, Global Factoring is an auxiliary corporation (as this term is defined in the Banking Licensing Law). Global Factoring provides factoring services to merchants and suppliers. The areas of activity of Global Factoring are subject to additional restrictions imposed on it by the Supervisor of Banks

  The contribution of Global's net profit to the Company's results of operation amounted to NIS 10 million at December 31, 2017, compared with NIS 7 million in 2016.

  Total investments of the Company in Global amounted to NIS 31 million at December 31, 2017, compared with NIS 21 million in 2016.

- **Europay Ltd.** (hereinafter - "**Europay**") **-** Europay issues jointly with the Company credit cards in which the Isracard and MasterCard brands are combined, and also acquires certain transactions at merchants in Israel with which it is connected in agreements and which were performed using cards issued abroad by the companies in the Mastercard Organization, by virtue of a license granted to it by the MasterCard organization (as detailed in the section "Strategic cooperation and material agreements" in the Report of the Board of Directors under the heading "Agreements with International Organizations, Arrangements with MasterCard International, Inc."). The issuance and acquiring activity of Europay, as aforesaid is managed by Isracard, by virtue of an agreement between the said companies. The contribution of Europay's net profit to the Company's results of operation at December 31, 2017 amounted to less than NIS 0.5 million, similar to 2016.

  The Company's total investment in Europay amounted to NIS 6 million at December 31, 2017, similar to the end of 2016.

- The Company has several cooperation agreements that could grant it minority holdings in ventures and companies in an insignificant monetary amount.

# 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, for example, 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 financial instrument, as a result of change in the market conditions, such as: changes in prices, rates, indices, margins and other parameters in the markets. The Company's business activity is exposed to market risks originating in the volatility in interest rates, exchange rates, the consumer price index and the value of securities.

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

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

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

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

**Strategic and competition risk:** The risk of impairment of the Company's profit and capital, deriving from 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:** 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 obligations on their due date, without incurring extraordinary losses.

**Reputational risk:** The risk of material impairment to the Company's revenues or equity as a result of a negative image created for the Company among stakeholders and is liable to be created from a large number of factors, together or severally, (for example, a consumer claim, a system collapse, behavior deviating from the social and generally accepted norms, etc.).

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

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

## b. Risk appetite

Risk appetite is a high-level determination of the risk that the corporation is willing to assume considering the risk/yield characteristics. It is usually perceived as forward-looking measurement of acceptance of assuming 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 activity in order to achieve its goals.

Risk capacity is a more specific determination of the level of change that the corporation is willing to accept as to its business goals, which is usually considered as the aggregate risk that a corporation is willing to accept. Risk tolerance 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 aggregate risk assessment inherent in exposures and business activity of the Company at 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 of money laundering and compliance). The risk appetite declaration constitutes a basis for establishing system of quantitative and qualitative limits in relation to each of the material risks to which the corporation is exposed.

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

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

### Risk management principles

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

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

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

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

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

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

The key principles for risk management are as follows:

- The Board of Directors supervises the work of the management in the area of risk management, subject to the provisions of the law.
- The Management of the Company is the factor responsible for implementing decisions of the Board of Directors in the area of risk management.
- Every business unit and/or operational unit is responsible for the management of the risks created as a part of its day-to-day activity, including its qualification to make decisions in relation to the assumption of risks (subject to exposure restrictions).
- The organizational structure of the risk management and the risk management processes will give appropriate expression to the Company's corporate governance principles, and will contribute, in the best way, to the existence of a chain of effective supervision over their activity, subject to the provisions of the law.
- The risk management will be proactive and will operate proactively to deal with the various material risks to which the Group companies are exposed and will not suffice with providing a retrospective response to developments and events.
- Decision-makers on the subject of risk management will operate with an overall vision of the Company's best interests and not with partial-functional vision.
- The risks to which the Company is exposed will be managed while maintaining a separation between the risk-taking lines of business and the independent risk management function under the responsibility of the Chief Risk Officer (including the Risk Management, Compliance and Prohibition of Money Laundering Department) and Internal Audit.
- The Company will fulfill continuous processes for identification, assessment and supervision of

quantifiable and non-quantifiable material risks to which it is exposed, in order to ensure at any time that the material risks which it faces are identified and managed.

- For each of the material risks to which the Company is exposed a senior office-holder is appointed, who bears accountability (total accountability that cannot 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 is 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 for identifying, measuring and monitoring risks in scenarios which depart from the normal course of business and do not receive a solution through the tools and models routinely applied for risk management. The Banking Supervision Department promotes the use of stress scenarios as a part of adopting the Basel Directives and in the context of other regulations, including Proper Conduct of Banking Management no. 310, which provides that: "a banking corporation should use forward-looking stress scenarios as a complementary tool for risk management approaches based on complex quantitative models."

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

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

The main uses of stress tests are:

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

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

c. 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 Regulation No. 311 "Credit Risk Management" which requires the involvement of an independent person in the business units, in supporting proper credit decision-making, taking into account and being involved in the formulation of the credit policy, classification of problem debts and the approval of material credit exposures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company conducts internal controls of credit-risk management by assigning 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 Basel III, the Company calculates an internal capital allocation, as required, against concentration risks.

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

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

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

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

The models may be divided as follows:

AS (Application Scoring) models - models for rating requests of new customers when underwriting for a new product according to segments of activity;
BS (Behavior Scoring) models – behavioral models of customers of the Company according to segments of activity;
SME (Small-Medium Enterprise) models – models to assess corporate customers ability to continue operating;
BBS models (Business Behavior Scoring) – a behavioral model of business customers who have taken credit.

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 Sub-Division, and validated by the Risk Management Department (the second circle of control). In addition, validation of the model code and validation of the model data are being performed in the Validation Unit in the data systems. The Company manually rates merchants with high credit. The manual rating is based mainly on the merchants' financial data.

## Credit policy

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

The credit policy is adapted to Proper Conduct of Banking Management Regulation Number 311, and the Chief Risk Officer is responsible for assisting the CEO in formulating the credit policy document, in cooperation with all the relevant factors in the Company, particularly the business line managers.

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

### Determination of hierarchy of authorities in the extension of credit

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

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

### Problematic credit risk and non-performing assets

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

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

## Table 5 - Problematic credit risk and nonperforming assets

| | Balance as at December 31, 2017 | Balance as at December 31, 2016 |
|---|---|---|
| | Reported amounts In NIS millions | |
| 1 Problematic credit risk (1) (2) (3) | | |
| Impaired credit risk | 36 | 27 |
| Inferior credit risk | 26 | 21 |
| Credit risk under special supervision | 214 | 198 |
| **Total problematic credit risk** | **276** | **246** |
| Of which: Unimpaired debts in arrears of 90 days or more | | - |
| **2. Nonperforming assets (2)** | | |
| Impaired debts | 36 | 27 |
| **Total nonperforming assets** | 36 | 27 |

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

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

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

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

| | For the year ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| | NIS (millions) | |
| **Balance of impaired debts as of beginning of period** | **11** | **7** |
| Balances classified as impaired during the period, net | 8 | 5 |
| Debts re-classified as non-impaired | - | - |
| Accounting write-offs, net | (3) | (-*) |
| Collection of debts classified as impaired during the period, net (2) | (2) | (1) |
| **Balance of impaired debts as of end of period** | **14** | **11** |

* Amount less than NIS 0.5 million.

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

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

## Table 7 – Risk and credit metrics

| | | December 31 2017 | 2016 |
|---|---|---|---|
| | | In percent | |
| A. | Balance of impaired debtors in respect of credit card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit card activity | 0.21 | 0.17 |
| 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 | 0.59 | 0.54 |
| D. | Credit loss expenses as a percentage of the average balance in respect of credit card activity | 0.66 | 0.51 |
| E. | Net write-offs in respect of debts in respect of credit card act as a percentage of the average balance of debtors in respect of credit card activity | 0.50 | 0.29 |
| 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 | 1.02 | 0.91 |
| 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 | 48.26 | 31.29 |

* More than 100%.

### Credit quality
The state of arrears is routinely monitored and represents one of the main indications for credit quality. The 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.

### Risk of credit to private individuals
In recent years, the Company has presented constant growth in the field of credit to private individuals. The Company considers this field as one of the central growth engines in the upcoming years, through calculated risk management.

Expansion of activity in the field of credit to private individuals is performed through responsive and proactive activity based on customer needs, which offers customers the variety of credit products available at the Company, such as: loans for any purpose, loans based on credit card facility and automobile loans based on cooperation with automobile companies in the market.

The Company has a policy and a procedure dealing with the work processes and rules for initiating contact for sale of credit to private individuals. As aforesaid, the work procedure on provision of credit to private individuals, based on the policy, sets forth, inter alia, definition of conversation scripts for sale of credit, including provision of information to the customer on the credit terms, such as: credit amount, credit period, nominal and adjusted interest, estimated monthly return and contact details for inquiries. Also, the procedure refers to customer needs and characteristics, as well as documentation of data regarding contacting customers. The procedure contains a definition of population to which no proactive contact for provision of credit will be performed, in order to meet regulatory rules.

The credit provided to private individuals is adjusted to the risk rating of the customer. A customer that receives credit must sign a loan agreement specifying all the credit terms, including: the credit amount, interest rate, credit period, frequency of payments and payment schedule as of the date of provision of the credit, which presents the current payment schedule in respect of loan payments. Credit risk management for credit to private individuals includes underwriting processes and routine monitoring and follow-up of customer risk. Credit to individuals is not based on collateral.

### Credit underwriting for private individuals
The process of credit underwriting and risk rating for private individuals is based on advanced statistical models. This rating serves as basis for decisions on the scope of credit and interest rate for the customer. The models undergo routine monitoring, periodic improvement and calibration tests once a year, according to internal and regulatory requirements.

Underwriting is carried out in two ways: automatic underwriting based on rating models and business rules, written through advanced tools that consider the entire activity of the customer at the Company, and manual underwriting that is carried out in cases that require additional examination beyond the automatic underwriting.

### Automatic underwriting
Over 90% of the credit decisions are made through the automatic underwriting process. This process is based on rating of new and existing customers by validated statistical models (9 different risk levels and additional risk rating in case of failure, 10 rating levels in total). The models are integrated in business rules that examine the customer's status based on data gathered from the Company's information sources and additional external information sources. The automatic underwriting process ranks the customer's risk level. Based on this rating, the customer is offered credit in an amount, price and term that are compatible with his risk rating reflected in the Company's systems, as well as the Company's risk appetite. The customer's risk rating is updated and monitored routinely along the credit period he was given.

### Manual underwriting

The manual underwriting process is performed in cases in which the requested credit amount is high and/or when the automatic system determines there is need for additional information regarding the customer. In these cases, the request is submitted to credit underwriting by the employees of the Credit and Financing Sub-Division, pursuant to the credit authorities. The request is submitted along with detailed information on the automatic underwriting process. The final credit decision is based both on the model's recommendation and on an analysis of the additional information received. The manual underwriting decision is documented in the system.

The Company follows the changes in the risk characteristics. As part of the risk management monitoring and follow-up processes, from time to time the credit underwriting process principles are adjusted and updated in order to reduce the risk, such as:

- Adjustment of models.
- Updating of potential loan amounts to future customers based on their risk rating.
- Updating and adjustment of lifecycle for future potential loans according to the risk rating.
- Adjustment of the interest rate to risk of future borrowers.
- Management of credit provision targets according to the customers' risk rating.

The Company manages the risk of credit to private individuals through the credit policy and routine and periodic control processes. The activity is divided into risk management activity and control activity.

### Risk management activity

- Management of exposure of credit to private individuals is done according to maximal exposure to a customer determined according to various parameters, such as: risk rating, credit products, customer seniority, repayment history, etc.
- Amount of a loan for any purpose to private individuals is limited to a maximal amount of NIS 80,000 and a period of 60 months, with the portfolio's lifecycle set at approximately 24 months. The actual loan amount is set according to the customer's risk rating.
- The policy for credit pricing for private individuals is adjusted to the customer's risk rating.
- Credit restrictions in the Company limit the exposure to private individuals at high risk level, out of the total credit portfolio for private individuals.
- The credit authority hierarchy in the Company limits the ability to approve exposures of credit to private individuals according to an internal authority hierarchy.
- The percentage of automobile financing is set for every customer according to specific examination of the customer. Credit for automobile financing may be provided for up to 100% financing and for a period of up to 72 months.

### Collection activity

The collection activity is anchored in a procedure which is under the responsibility of the manager of the Consumer Credit and Collection Department. The procedure regulates the handling of collection procedures, repayments and their transfer to the legal treatment, as necessary. Following the growth in credit in recent years and changes in bankruptcy proceedings, an increase has been observed in the difficulty of collecting debts from private customers.

## Control activity

The control activity includes two control cycles. The first control cycle includes:

### Supervision and monitoring of credit risk to private individuals

Supervision of characteristics of credit risk to private individuals. The primary supervision activities of credit risk are:

The first control circle is performed at the Credit and Financing Sub-Division in the Company. The monitoring begins at the business unit responsible for provision of credit to private individuals, with the assistance of analysis activity and models of Credit Information and Development Department, and as part of control activity of the Control and Reporting Unit.

Activity in first control circle:

- Daily controls primarily regarding meeting credit limitations and authorities.
- Specific examination of credit provided to existing customers. Changes in data of customers and their credit status are examined.
- Examination of extraordinary amounts, as well as the propriety of interests rate on loans through cards and credit not through cards..
- In the field of automobile loans, the propriety of the cash flow, meeting of the limitations, pledges and liens, propriety of legal documents are examined, and a monthly control of the portfolio is performed.
- Controls on the Company's credit operation activity (direct and indirect responsibility)
- Control the handling of alerts and returns.

The second control circle is performed at the Risk Management and Security Sub-Division. As part of this control circle, an independent control unit operates and reports to the Chief Risks Manager. The unit has an annual control plan according to the instructions on control as appear in Proper Conduct of Banking Management Directive No. 311 "Credit Risk Management". The plan includes independent and ongoing assessment of credit risk management processes, and the results of these surveys are reported directly to the Board of Directors and senior management of the Company.

The second control circle includes the following credit reviews:

- Material credit is examined (above NIS 100,000).
- A sufficient sample of other immaterial credit is examined.
- The various types of problematic credit are examined (substandard, impaired and under special supervision).
- Credit the terms of which have been changed, though not classified as problematic, is examined.
- Credit determined by the Company or by the Banking Supervision Department as warranting special attention by management is examined.

- Credit to related persons is examined.
- Credit that represents a concentration of credit risk is examined.

The depth of the surveys performed includes several aspects, including:

A. Quality of the credit (including borrower's performance).

B. Compliance with the rating policy and classification policy, including opinion on the customer's rating.

C. Compliance with conditions set forth in the credit agreement.

- The Company's credit policy is approved every year by the Company's Board of Directors and management. The policy includes, as aforesaid, a chapter referring to credit to private individuals.
- The Company defines credit quality targets in the field of credit to private individuals that are monitored as part of the Company's annual work plan.
- The first control circle prepares a report presenting the Company's credit portfolio mix. The mix presents, inter alia, the analysis of the portfolio according to credit products, sectors, risk ratings, geographic distribution, compliance with regulatory and internal limitations, analysis of yield versus risk, failure rates, and more. The information is submitted every month to the Company management and once every quarter it is presented to the Board of Directors.
- The second control circle, headed by the Chief Risks Manager, submits independent reporting, including a document that describes the credit risks of the Company. The information is reported every month to the Company's management and once every quarter, it is presented to the Company's Board of Directors.
- The Company makes decisions as to operation and credit management after examination and review of the results in the reports of the first and second control circles.
- The Company has work procedures in the field of credit to private individuals. The procedures are updated routinely by the various departments.

### Data on credit for private individuals

As of December 31, 2017, the credit risk for private individuals was NIS 4,132 million, compared with NIS 3,728 million on December 31, 2016, a growth rate of approximately 10.8%.

### Credit quality 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 by the Banking Supervision Department aimed at limiting concentration of credit portfolios in the local banking system, against the backdrop of the Basel Committee on large exposures. Inter alia, the definition of equity was reduced to Pillar One equity, and the limitation on indebtedness of banking group of borrowers to banking corporation was changed to 15% instead of 25%. The amendments to the Directive came into effect on January 1, 2016, except as to the definition of equity, for which the addition will be reduced gradually until December 31, 2018.

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

**Credit exposure to foreign financial institutions and foreign countries**

The Company has immaterial credit exposure to the international organizations Mastercard Inc. Visa Inc. in respect of balances of transactions executed by tourists in Israel, net of the balances of transactions executed by Israelis overseas in respect of which the Company has not yet been credited by the international organizations.

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

## Market risk and liquidity

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

Market and liquidity risks management in the Company is based on an integrative layout for management of exposures, composed of the following functions:

Market and Liquidity Risks Manager (VP Finance and Administration) and Chief Risk 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 the Board of Directors.

**Chief Risks Officer**

The Chief Risk Officer of the Company is responsible, by virtue of his position, inter alia, for control of the Company's market and liquidity risks management.

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 certain financial instrument as a result of change in market conditions, such as: changes in prices, rates, indices and margins and other parameters in the markets.

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

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

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

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

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

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

**Details of the various risks are as follows:**

*a.* *Linkage base risk*

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 loss due to change in interest rates in different markets. The risk derives from exposure to future changes in interest rates and their possible effect on the value of the Company's assets and liabilities according to the economic value approach, and their effect on profits according to the profits approach. 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 average 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 securities.

*d.* *Derivative financial instruments*

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

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

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

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

### 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 as a result of differences in timing between the transaction date and the settlement date in foreign-currency transactions. The Company monitors these differences.

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

## Table 8 - Fair value of financial instruments of the Company and its consolidated subsidiaries, excluding non-monetary items

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | In NIS millions | | | | |
| | Israeli currency | | Foreign currency** | | |
| | Unlinked | CPI-linked | USD | Other | Total |
| Financial assets | 17,042 | 100 | 155 | 59 | 17,356 |
| Amounts receivable in respect of derivative financial instruments | - | - | - | - | - |
| Financial liabilities | 14,888 | 67 | 162 | 18 | 14,935 |
| Amounts payable in respect of derivative financial instruments | - | - | - | - | - |
| **Net fair value of financial instruments** | **2,354** | **33** | **(7)** | **41** | **2,421** |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | In NIS millions | | | | |
| | Israeli currency | | Foreign currency** | | |
| | Unlinked | CPI-linked | USD | Other | Total |
| Financial assets | 16,285 | 103 | 142 | 28 | 16,558 |

| | | | | | |
|---|---|---|---|---|---|
| Amounts receivable in respect of derivative financial instruments | 40 | - | - | - | 40 |
| Financial liabilities | 13,958 | 66 | 148 | 9 | 14,181 |
| Amounts payable in respect of derivative financial instruments | 40 | - | - | - | 40 |
| **Net fair value of financial instruments** | **2,327** | **37** | **(6)** | **19** | **2,377** |

Notes – see next page

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

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Net fair value of financial instruments after the effect of changes in interest rates* | | | | | Change in fair value | |
| | Israeli currency | | Foreign currency*** | | | | |
| | Unlinked | CPI-linked | USD | Other | Total | Total | Total |
| | In NIS millions | | | | | | In percent |
| Immediate corresponding increase of 1% | 2,351 | 33 | (7) | 41 | 2,418 | (3) | (0.1) |
| Immediate corresponding increase of 0.1% | 2,354 | 33 | (7) | 41 | 2,421 | - | - |
| Immediate corresponding decrease of 1% | 2,357 | 33 | (7) | 41 | 2,424 | 3 | 0.1 |

| | 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 corresponding increase of 1% | 2,324 | 37 | (6) | 19 | 2,374 | (3) | (0.1) |
| Immediate corresponding increase of 0.1% | 2,327 | 37 | (6) | 19 | 2,377 | - | - |
| Immediate corresponding decrease of 1% | 2,330 | 37 | (6) | 19 | 2,380 | 3 | 0.1 |

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

** Including Israeli currency linked to foreign currency.

## Table 10 – Exposure of the Company and its consolidated subsidiaries to changes in interest rates as of December 31, 2017

**In NIS millions**

| | On demand to one month | One month to three months | Three months to one year | One to three years | Three to five years | More than five years | Without maturity date | Total fair value | Internal rate of return (2) | Effective average duration (3) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | **%** | **years** |
| **Unlinked Israeli currency** | | | | | | | | | | |
| **Financial assets:** | | | | | | | | | | |
| Financial assets* | 11,573 | 2,550 | 2,382 | 503 | 7 | - | 27 | 17,042 | 1.69% | 0.14 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - |
| **Total fair value** | **11,573** | **2,550** | **2,382** | **503** | **7** | **-** | **27** | **17,042** | | ****0.14** |
| **Financial liabilities:** | | | | | | | | | | |
| Financial liabilities* | 9,846 | 2,314 | 2,082 | 359 | 16 | 5 | 66 | 14,688 | 1.25% | 0.14 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - |
| **Total fair value** | **9,846** | **2,314** | **2,082** | **359** | **16** | **5** | **66** | **14,688** | | ****0.14** |
| **Net financial instruments** | | | | | | | | | | |
| Exposure to changes in interest rates in the segment | 1,727 | 236 | 300 | 144 | (9) | (5) | (39) | 2,354 | - | - |
| Accumulated exposure in the segment | 1,727 | 1,963 | 2,263 | 2,407 | 2,398 | 2,393 | 2,354 | - | - | - |
| **Linked Israeli currency** | | | | | | | | | | |
| Financial assets* | 19 | 30 | 43 | 3 | 5 | - | - | 100 | (0.02%) | **0.49 |
| Financial liabilities* | 14 | 21 | 32 | *- | - | - | - | 67 | (0.02%) | **0.25 |

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

**In NIS millions**

| | On demand to one month | One month to three months | Three months to one year | One to three years | Three to five years | More than five years | Without maturity date | Total fair value | Internal rate of return (2) | Effective average duration (3) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | % | years |
| **Overall exposure to changes in interest rates** | | | | | | | | | | |
| **Financial assets:** | | | | | | | | | | |
| Financial assets* | 11,754 | 2,602 | 2,438 | 506 | 12 | - | 44 | 17,536 | 1.65% | 0.14 |
| Derivative financial instruments | - | - | - | - | - | - | - | -- | - | - |
| **Total fair value** | **11,754** | **2,602** | **2,438** | **506** | **12** | **-** | **44** | **17,536** | | ****0.14** |
| **Financial liabilities:** | | | | | | | | | | |
| Financial liabilities* | 9,999 | 2,356 | 2,124 | 359 | 16 | 9 | 72 | 14,935 | 1.25% | 0.14 |
| Derivative financial instruments | - | - | - | - | - | - | - | -- | - | - |
| **Total fair value** | **9,999** | **2,356** | **2,124** | **359** | **16** | **9** | **72** | **14,935** | | ****0.14** |
| **Net financial instruments** | | | | | | | | | | |
| Exposure to changes in interest rates in the segment | 1,755 | 246 | 314 | 147 | (4) | (9) | (28) | 2,421 | - | - |
| Accumulated exposure in the segment | 1,755 | 2,001 | 2,315 | 2,462 | 2,458 | 2,449 | 2,421 | - | - | - |

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

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

**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 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

(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 27A 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.

## Table 10 – Exposure of the Company and its consolidated subsidiaries to changes in interest rates as of December 31, 2016

**In NIS millions**

| | On demand to one month | One month to three months | Three months to one year | One to three years | Three to five years | More than five years | Without maturity date | Total fair value | Internal rate of return (2) | Effective average duration (3) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | **%** | **years** |
| **Unlinked Israeli currency** | | | | | | | | | | |
| **Financial assets:** | | | | | | | | | | |
| Financial assets* | 10,864 | 2,559 | 2,372 | 476 | 7 | - | 7 | 16,285 | 1.74% | 0.14 |
| Derivative financial instruments | 5 | 35 | - | - | - | - | | 40 | | 0.11 |
| Total fair value | 10,869 | 2,594 | 2,372 | 476 | 7 | - | 7 | 16,325 | | 0.14** |
| **Financial liabilities:** | | | | | | | | | | |
| Financial liabilities* | 9,076 | 2,355 | 2,111 | 339 | 12 | 1 | 64 | 13,958 | 1.26% | 0.15 |
| Derivative financial instruments | 5 | -* | 35 | - | - | - | - | 40 | | 0.76 |
| Total fair value | 9,081 | 2,355 | 2,146 | 339 | 12 | 1 | 64 | 13,998 | | 0.15** |
| **Net financial instruments** | | | | | | | | | | |
| Exposure to changes in interest rates in the segment | 1,788 | 239 | 226 | 137 | (5) | (1) | (57) | 2,327 | | |
| Accumulated exposure in the segment | 1,788 | 2,027 | 2,253 | 2,390 | 2,385 | 2,384 | 2,327 | - | | |

## Table 10 – Exposure of the Company and its consolidated subsidiaries 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** |
| **Linked Israeli currency** | | | | | | | | | | |
| Financial assets* | 11,013 | 2,605 | 2,431 | 477 | 12 | - | 20 | 16,558 | 1.71% | 0.15 |
| Derivative financial instruments | 5 | 35 | - | - | - | - | - | 40 | | 0.11 |
| Total fair value | 11,018 | 2,640 | 2,431 | 477 | 12 | - | 20 | 16,598 | | 0.15** |
| **Financial liabilities:** | | | | | | | | | | |
| Financial liabilities* | 9,210 | 2,394 | 2,149 | 339 | 12 | 5 | 72 | 14,181 | 1.27% | 0.15 |
| Derivative financial instruments | 5 | -* | 35 | - | - | - | - | 40 | | 0.76 |
| Total fair value | 9,215 | 2,394 | 2,184 | 339 | 12 | 5 | 72 | 14,221 | | 0.15** |
| **Net financial instruments** | | | | | | | | | | |
| Exposure to changes in interest rates in the segment | 1,803 | 246 | 247 | 138 | -* | (5) | (52) | 2,377 | - | - |
| Accumulated exposure in the segment | 1,803 | 2,049 | 2,296 | 2,434 | 2,434 | 2,429 | 2,377 | - | - | - |

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

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

**General notes:**

(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 27A to the financial statements. Consistent with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 27A to the financial statements.

(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 27A 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 liabilities 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 reputation caused by an inability to finance the Company's business operations.

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

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

This policy is achieved by maintaining routine monitoring of the Company's liquidity position through the use of an internal liquidity risk management model, monitoring of 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 Head of Finance and Administration.

On September 28, 2014, the Banking Supervision Department published a circular 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 institutional entities, loans from banks, a fellow subsidiary, an institutional entity 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 bank finance each time, as applicable. In addition, the Company uses a secured line of credit from the parent company and an institutional entity and is taking steps to secure a line of liquidity and an expansion of the existing sources of finance through other banks and from additional 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 25 and 26 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.

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

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

The Company has 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 Regulation No. 361 regarding the management of cyber protection. The directive includes the basic principles for managing cyber protection, and among other things, the directive sets forth the requirement to maintain 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 is prepared with a plan of action agreed by the management, to integrate the requirements in the new directive in the Company, in addition to the other provisions to which it is subject on this issue. For example, business continuity, risk management, all in accordance with the clarifications given by the Bank of Israel relating to the method and dates of implementation.

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

Recently, there has been an increase 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-attacks. 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 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 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 emerging regulations and monitoring changes in relation to the reasonableness of the materialization of the risk.

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

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

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

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

## Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

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

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

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

## Reputational risk

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

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

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

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

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

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

## Strategic and competition risk

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

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

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

## Table 11 – Discussion of risk factors

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

Need to add a column – high risk – that is empty.

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

# Accounting policy and critical estimates, controls and procedures

## Accounting policy and critical estimates

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

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

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

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

### Allowance for credit losses

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

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

### Contingent liabilities

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

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

### Employee rights

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

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

- As part of the separation of the Company from Bank Hapoalim, the liability in respect of the bank's employees on loan includes amounts corresponding to the termination of employment of bank employees on loan in Isracard, each employee in accordance with the specific agreement with him. Part of the liability is in accordance with an actuarial opinion and part, according to actual retirement costs. For further details, see also Note 20 I., below.

- The amounts determined according to the opinion of the actuary of the Isracard Group (the Isracard Group consists of the Company and, in addition, Poalim Express Ltd., a fellow subsidiary wholly owned by Bank Hapoalim), are not material for the purpose of attaching an evaluation opinion.

## Disclosure regarding controls and procedures

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

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

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

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

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

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

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

## Evaluation of Controls and Procedures Regarding Disclosure

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

## Internal Controls over Financial Reporting

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

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

Tel Aviv, February 25, 2018

## Certification of the Chief Executive Officer

I, Dr. Ron Weksler, hereby declare that:

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

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

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

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

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

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

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most

current assessment of the internal control over financial reporting:

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

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

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

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

**Dr. Ron Weksler**

Chief Executive Officer

Tel Aviv, February 25, 2018

## Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

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

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

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

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

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

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

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

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

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

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

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

**Sigal Barmack**

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 25, 2018

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

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

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

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

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2017 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page #67. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2017.

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

Tel Aviv, February 25, 2018

Isracard Ltd. and its Consolidated Companies

# Financial Statements

For the year ended December 31, 2017

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## Auditors' Report to the Shareholders of Isracard 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 Isracard Ltd. and its subsidiaries (hereinafter, jointly: "the Company") as at December 31, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as at December 31, 2017, based on criteria established in the Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the consolidated and separate balance sheets of the Company as at December 31, 2017 and 2016, and for each of the three years in the period ending on December 31, 2017. Our report dated February 25, 2018, included an unqualified opinion on these financial statements, while drawing attention to the matters stated in Note 23.C.2 regarding regulatory initiatives and Note 23.D.15 regarding a petition for the approval of a certain claim as a class-action suit against the Company.

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

Tel Aviv, February 25, 2018

| | |
|---|---|
| **Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.** | BDO<br>**ZIV HAFT**<br>**IS A MEMBER OF BDO** |

**Somekh Chaikin**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the consolidated and separate financial position of the Company as at December 31, 2017 and 2016, and the consolidated and separate results of operations, changes in equity, and cash flows, of the Company for each of the three years in the period ending on December 31, 2017, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion above, we draw attention to the matters in Note 23.C.2 regarding regulatory initiatives and Note 23.D.15 regarding a petition for the approval of a certain claim as a class action suit against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2017, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2018, expressed an unqualified opinion of the effectiveness of the Company’s internal control over financial reporting.

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

Tel Aviv, February 25, 2018

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

**ZIV HAFT**

**IS A MEMBER OF BDO**

## Statements of Profit and Loss

In NIS millions

| | | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | Note | For the year ended December 31 | | | For the year ended December 31 | | |
| | | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| **Income** | | | | | | | |
| From credit-card transactions | 3 | 1,492 | 1,433 | 1,359 | 1,493 | 1,435 | 1,361 |
| Net interest income | 4 | 271 | 233 | 174 | 21 | 19 | 16 |
| Other income | 5 | 42 | 44 | 57 | 36 | 39 | 52 |
| **Total income** | | **1,805** | **1,710** | **1,590** | **1,550** | **1,493** | **1,429** |
| **Expenses** | | | | | | | |
| In respect of credit losses | 12 | 109 | 80 | 32 | 28 | 24 | 6 |
| Operating expenses | 6 | 580 | 557 | 529 | 564 | 541 | 504 |
| Sales and marketing expenses | 7 | 318 | 265 | 235 | 307 | 258 | 230 |
| General and administrative expenses | 8 | 79 | 70 | 61 | 71 | 64 | 55 |
| Payments to banks | 23G | 371 | 399 | 372 | 371 | 399 | 372 |
| **Total expenses** | | **1,457** | **1,371** | **1,229** | **1,341** | **1,286** | **1,167** |
| Profit before taxes | | 348 | 339 | 361 | 209 | 207 | 262 |
| Provision for taxes on profit | 9 | 97 | 111 | 108 | 53 | 65 | 71 |
| **Profit after taxes** | | **251** | **228** | **253** | **156** | **142** | **191** |
| The Company's share in profits (losses) after the effect of tax of investee companies (consolidated: associates) | | 1 | 1 | (2) | 96 | 87 | 60 |
| **Net profit** | | **252** | **229** | **251** | **252** | **229** | **251** |
| **Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)** | | **343** | **311** | **342** | **343** | **311** | **342** |
| Number of common shares used in calculation | | 735,124 | 735,124 | 735,124 | 735,124 | 735,124 | 735,124 |

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

Tel Aviv, February 25, 2018

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

# Statements of Comprehensive Income

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **Net profit** | **252** | **229** | **251** | **252** | **229** | **251** |
| Other comprehensive income (loss) before taxes: | | | | | | |
| Adjustments for presentation of securities available for sale at fair value, net | 4 | 1 | 1 | 4 | 1 | 1 |
| Adjustments for liabilities in respect of employee rights (1) | 9 | (45) | (3) | 9 | (45) | (3) |
| **Other comprehensive loss before taxes** | 13 | (44) | (2) | 13 | (44) | (2) |
| Effect of related tax | | | | | | |
| **Other comprehensive loss before attribution to non-controlling interests, after taxes** | (3) | 10 | 1 | (3) | 10 | 1 |
| **Comprehensive profit (loss) after taxes** | **10** | **(34)** | **(1)** | **10** | **(34)** | **(1)** |
| **Comprehensive income attributed to shareholders of the Company** | **262** | **195** | **250** | **262** | **195** | **250** |

(1) Primarily reflecting adjustments in respect of actuarial estimates at the end of the year and amortization of amounts recorded in the past under other comprehensive income. See Note 20 to the financial statements for additional details.

(2)

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

## Balance Sheets

In NIS millions

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | December 31 | | December 31 | |
| | Note | 2017 | 2016 | 2017 | 2016 |
| **Assets** | | | | | |
| Cash on hand and deposits with banks | 11 | **104** | **109** | **96** | **98** |
| Debtors in respect of credit-card activity | 12 | **16,925** | **16,238** | **13,028** | **12,791** |
| Allowance for credit losses | | **(172)** | **(147)** | **(56)** | **(50)** |
| **Debtors in respect of credit-card activity, net** | | 16,753 | 16,091 | 12,972 | 12,741 |
| Securities | 13 | 26 | 20 | 26 | 20 |
| Investments in investee companies (consolidated: associates) | 14 | 5 | 3 | 533 | 436 |
| Buildings and equipment | 15 | 267 | 264 | 187 | 180 |
| Other assets | 16 | 740 | 571 | 5,074 | 4,482 |
| **Total assets** | | **17,895** | **17,058** | **18,888** | **17,957** |
| | | | | | |
| **Liabilities** | | | | | |
| Credit from banking corporations | 17 | 2,017 | 1,222 | 2,004 | 1,221 |
| Creditors in respect of credit-card activity | 18 | 12,104 | 12,089 | 13,143 | 13,035 |
| Other liabilities | 19,23 | 1,073 | 1,082 | 1,040 | 1,036 |
| **Total liabilities** | | **15,194** | **14,393** | **16,187** | **15,292** |
| | | | | | |
| Contingent liabilities and special commitments | 23 | | | | |
| Capital attributed to shareholders of the Company | 22 | 2,701 | 2,665 | 2,701 | 2,665 |
| **Total capital** | | 2,701 | 2,665 | 2,701 | 2,665 |
| **Total liabilities and capital** | | **17,895** | **17,058** | **18,888** | **17,957** |

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

## Statements of Changes in Equity

In NIS millions

| | Paid-up share capital | Capital reserves: Premium on shares | Capital reserves: From a controlling shareholder | Total paid-up share capital and capital reserves | Accumulated other comprehensive income (loss) | Retained earnings | Total capital |
|---|---|---|---|---|---|---|---|
| **Balance as at December 31, 2014** | ***-** | **47** | **8** | **55** | **6** | **2,140** | **2,201** |
| Effect of initial implementation of US GAAP on employee rights as at January 1, 2015 | - | - | - | - | (1) | - | (1) |
| Net profit for the year | - | - | - | - | - | 251 | 251 |
| **Adjustments and changes due to:** | | | | | | | |
| Benefits received from controlling shareholder | - | - | -* | -* | - | - | -* |
| Benefit from share allocation | - | 5 | - | 5 | - | - | 5 |
| Net other comprehensive loss after effect of tax(1) | - | - | - | - | -* | - | -* |
| **Balance as at December 31, 2015** | ***-** | **52** | **8** | **60** | **5** | **2,391** | **2,456** |
| Net profit for the year | - | - | - | - | - | 229 | 229 |
| **Adjustments and changes due to:** | | | | | | | |
| Benefits received from controlling shareholder** | - | - | 9 | 9 | - | - | 9 |
| Benefit from share allocation | - | 5 | - | 5 | - | - | 5 |
| Net other comprehensive loss after effect of tax(1) | - | - | - | - | (34) | - | (34) |
| **Balance as at December 31, 2016** | ***-** | **57** | **17** | **74** | **(29)** | **2,620** | **2,665** |
| Net profit for the year | - | - | - | - | - | 252 | 252 |
| Dividend | - | - | - | - | - | (230) | (230) |
| **Adjustments and changes due to:** | | | | | | | |
| Benefits received from controlling shareholder | - | - | *- | *- | - | - | *- |
| Benefit from share allocation | - | 4 | - | 4 | - | - | 4 |
| Net other comprehensive loss after effect of tax(1) | - | - | - | - | 10 | - | 10 |
| **Balance as at December 31, 2017** | ***-** | **61** | **17** | **78** | **(19)** | **2,642** | **2,701** |

* Amount less than NIS 0.5 million.

** In respect of part that was transferred to the Company out of the consideration that was received by Bank Hapoalim from the sale of the shares in Visa.

(1) See Note 10 below The accompanying notes are an integral part of the financial statements.

## Statements of Cash Flows

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **Cash flows from operating activity** | | | | | | |
| Net profit for the year | 252 | 229 | 251 | 252 | 229 | 251 |
| **Adjustments:** | | | | | | |
| Company's share in undistributed (profits) losses of investee companies (consolidated: associates) | (1) | (1) | 2 | (96) | (87) | (60) |
| Depreciation of buildings and equipment | 77 | 82 | 87 | 70 | 76 | 80 |
| Expenses in respect of credit losses | 109 | 80 | 32 | 28 | 24 | 6 |
| Impairment of securities available for sale | - | - | 1 | - | - | 1 |
| Profit from realization of buildings and equipment | - | - | (4) | - | - | (4) |
| Deferred taxes, net | (21) | (10) | 4 | (4) | 2 | 8 |
| Change in provisions and liabilities for employees | 28 | (3) | (3) | 27 | (3) | (3) |
| Revaluation of deposits with banking corporations | 1 | *- | 1 | 1 | *- | 1 |
| Benefit due to transactions with controlling owner | - | 9 | *- | - | 9 | *- |
| Benefit due to share allocation | 4 | 5 | 5 | 4 | 5 | 5 |
| Adjustments in respect of exchange-rate differences | (4) | *- | (3) | (4) | *- | (3) |
| **Changes in current assets** | | | | | | |
| Placement of deposits with banks | (8) | (9) | (10) | (8) | (9) | (10) |
| Withdrawal of deposits from banks | 13 | 13 | 9 | 13 | 13 | 9 |
| Change in credit to cardholders and merchants, net | (324) | (832) | (534) | 97 | (213) | (290) |
| Change in receivables in respect of credit-card activity, net | (447) | (228) | (514) | (356) | (136) | (390) |
| Change in factoring including procurement factoring | (150) | (91) | (35) | - | - | - |
| Change in other assets, net | *- | (20) | 8 | (591) | (680) | (1,033) |
| **Changes in current liabilities** | | | | | | |
| Short-term credit from banking corporations, net | 795 | 899 | 295 | 783 | 898 | 295 |
| Change in payables in respect of credit-card activity, net | 15 | (37) | 111 | 108 | (80) | 256 |
| Change in other liabilities, net | (26) | 52 | 183 | (11) | 82 | 193 |
| **Net cash from (used in) operating activity** | **313** | **138** | **(114)** | **313** | **130** | **(108)** |

* 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

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| **Cash flows from investment activity** | | | | | | |
| Acquisition of buildings and equipment | (83) | (93) | (72) | (80) | (90) | (67) |
| Acquisition of an investee company | (1) | (1) | - | (1) | (1) | - |
| Purchase of securities available for sale | (2) | - | - | (2) | - | - |
| Proceeds of realization of buildings and equipment | - | - | 4 | - | - | 4 |
| **Net cash used in investment activity** | **(86)** | **(94)** | **(68)** | **(83)** | **(91)** | **(63)** |
| **Cash flows from financing activity** | | | | | | |
| Payment of dividend to shareholders | (230) | - | - | (230) | - | - |
| Issuance of share capital in a consolidated company | - | - | - | - | - | (11) |
| Issuance of capital in a subsidiary company | - | - | - | - | (1) | - |
| **Net cash used in financing activity** | **(230)** | **-** | **-** | **(230)** | **(1)** | **(11)** |
| **Increase (decrease) in cash** | (3) | 44 | (182) | - | 38 | (182) |
| **Balance of cash at the beginning of the year** | 96 | 52 | 231 | 85 | 47 | 226 |
| **Effect of changes in exchange rates on cash balances** | 4 | (*-) | 3 | 4 | (*-) | 3 |
| **Balance of cash at the end of the year** | **97** | **96** | **52** | **89** | **85** | **47** |
| **Interest and taxes paid and/or received** | | | | | | |
| Interest received | 297 | 242 | 176 | 15 | 13 | 12 |
| Interest paid | 14 | 8 | 6 | 12 | 8 | 6 |
| Dividends received | 1 | 1 | 4 | 1 | 1 | 4 |
| Taxes on income paid | 137 | 148 | 126 | 69 | 84 | 87 |
| Taxes on income received | 19 | 10 | 21 | 19 | 10 | 21 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Appendix A** | | | | | | |
| **Activity in assets and liabilities not involving cash flows [need to align the numbers in this table]** | | | | | | |
| Acquisition of buildings and equipment against liabilities to suppliers | (3) | 1 | (2) | (3) | (1) | (3) |
| Distribution of dividend not in cash by a subsidiary | - | - | - | - | 10 | 21 |

* Amount less than NIS 0.5 million.

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

# Note 1 – General

Isracard Ltd. (hereinafter: the “**Company**”) is a corporation incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: the "**Parent Company**" / "**Bank Hapoalim**"). The holder of the permit for control of Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

The Company is primarily engaged in issuing and acquiring Isracard, MasterCard, and Visa brand credit-card transactions and in financing activity, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd. and of its sister company Poalim Express Ltd. The financial statements as at December 31, 2017, include those of the Company and of its subsidiaries (hereinafter: the "**Group**"), as well as the Group's interests in joint operations and in associates.

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the Public Reporting Directives of the Banking Supervision Department and its guidelines. For the main areas, these directives are based on generally accepted accounting principles in US banks. For the remaining areas, which are less material, the directives are based on International Financial Reporting Standards (IFRS) and Israeli GAAP.

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

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

# Note 2 – Reporting Principles and Significant Accounting Policies

## A Definitions

In these financial statements:

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

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

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

## Definitions (cont.)

1. **The Company** – Isracard Ltd.
2. **The Group** – The Company and its investee companies.
3. **The Parent Company** – Bank Hapoalim B.M.
4. **Consolidated / subsidiary companies** – Companies whose financial statements are fully consolidated with the financial statements.
5. **Associate companies** – Companies other than consolidated companies, the Company's investment in which, directly or indirectly, is included in the financial statements based on the equity method.
6. **Investee companies** – Consolidated companies and associated companies.
7. **Related parties and interested parties** – As defined in Section 80 of the Public Reporting Directives.
8. **Controlling shareholders** – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
9. **CPI** – The consumer price index, as published by the Central Bureau of Statistics in Israel.
10. **Dollar** – United States dollar.
11. **Adjusted amount** – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements of the Institute of Certified Public Accountants in Israel.
12. **Reported amount** – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.
13. **Cost** – Cost in reported amounts.
14. **Nominal financial reporting** – Financial reporting based on reported amounts.
15. **Functional currency** – The currency of the main economic environment in which the company operates.
16. **Presentation currency** – The currency in which the financial statements are presented.
17. **Recorded debt balance** - Defined as the balance of the debt, net of accounting write-offs, but before deducting the allowance for credit losses in respect of that debt.
18. **Fair value** - The price that would have been received from the sale of an asset or would have been paid for the purpose of settling a liability in an ordinary transaction between market participants on the measurement date.

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

## A. Basis for Preparation of the Financial Statements

### 1. Reporting Principles

The financial statements of the Company are prepared in accordance with the Public Reporting Directives and guidelines of the Banking Supervision Department. On most issues, these directives are based on generally accepted accounting principles in the Unites States. For the remaining issues, which are less significant, the provisions are based on International Financial Reporting Standards (IFRS) and on Israeli GAAP. When International Financial Reporting Standards allow or do not include specific reference to a certain situation, these directives include specific application guidelines, based mainly on general accounting principles for banks in the US.

### 2. Functional Currency and Presentation Currency

The consolidated financial statements are presented in New Israeli Shekels (NIS), the functional currency of the Company, rounded to the nearest million, except where otherwise noted.
The Shekel is the currency that represents the main economic environment in which the Company operates.

### 3. Basis of Measurement

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

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

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

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

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

### 1. Use of Estimates

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

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

### 2. Changes in estimates

In the years 2016 and 2017, the Company updated employee benefits liabilities measured on an actuarial basis, in line with 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 20B.3 below for additional details.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Generally accepted accounting principles in banks in the United States on Topic 830 in the Codification regarding "Foreign currency matters".
- Generally accepted accounting principles in banks in the United States relating to accounting policy, changes in accounting estimates and errors, including Topic 250 in the Codification regarding "Accounting changes and error corrections"
- Generally accepted accounting principles in banks in the United States relating to post balance sheet date events in accordance with Topic 855-10 in the Codification regarding "Subsequent events".

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

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

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

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

## D. Accounting Policies 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. At every reporting date, monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

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

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

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the Consumer Price Index are included according to the linkage terms established for each balance.

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

| | December 31 | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Consumer price index (in points) | 100.4 | 100.0 | 100.2 |
| United States dollar exchange rate (in NIS per 1 USD) | 3.467 | 3.845 | 3.902 |
| Euro (in NIS per 1 Euro) | 4.153 | 4.044 | 4.247 |
| | **Percentage change in the year ended December 31** | | |
| | **2017** | **2016** | **2015** |
| Consumer price index | 0.4 | (0.2) | (1.0) |
| United States dollar exchange rate | (9.8) | (1.5) | 0.3 |
| Euro exchange rate | 2.7 | (4.8) | (10.1) |

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

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

**2 .Investments in investee companies**
Subsidiaries

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

Intercompany balances and unrealized income and expenses arising from intercompany transactions have been eliminated in the preparation of the consolidated financial statements.

**Joint Operations**

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

**Investments in Associate Companies**

Associate companies are entities in which the Group has material influence on financial and operational policy, but has not obtained control or joint control. There is an assumption that a holding of 20% to 50% in an investee affords significant influence. Investment in associate companies are treated according to the equity method and recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in income and expenses, profit or loss, and other comprehensive income of investee entities dealt with on equity-basis.

**3. Basis for Recognition of Revenues and Expenses**

1. Income from acquiring fees, net of fee refunds, is recognized in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.
2. The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, "Reporting Income on a Gross or Net Basis," and accordingly presents income from acquiring fees on a net basis in the statement of profit and loss. Regarding the standard to be implemented from January 1, 2018, see also section E.1. – "Recognition of income from contracts with customers" below.
3. Income from service fees and foreign currency transaction fees collected from cardholders are shown on a gross basis as relevant, are recognized in the statement of profit and loss on a cumulative basis.

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

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

## 3. Basis for Recognition of Revenues and Expenses (Cont.)

4. Interest income and expenses are recorded on an accrual basis, with the exception of interest from problem debts classified as impaired debts recognized as interest income based on actual collection.
5. Securities and derivative financial instruments – see Sections 5 and 6 below.
6. Other income and expenses are recognized on an accrual basis.

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

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

In addition, from time to time the Banking Supervision Department revises the Public Reporting Directives and issues Frequently Asked Questions, 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.

**Debtors in Respect of Credit Card Activity and Other Debt Balances**

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

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

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

### 4. 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. Credit risk under special supervision includes credit risk with potential weaknesses that deserve special management attention. If not addressed, the result of these potential weaknesses may be a deterioration in the prospects for repayment of the credit or the status of the company as a creditor at a future date. Substandard credit risk is inadequately protected by the established present value. 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 loan”). In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired.

#### Allowance for Credit Losses

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

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

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

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

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

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

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually 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 temporary order issued by the Banking Supervision Department, regarding the collective allowance for credit losses during the years commencing January 1, 2011 and ending on the reporting date. The formula is based on historical rates of loss, distinguishing between problematic and non-problematic credit, and between individual persons and merchants, international organizations, and credit-card companies. In accordance with the directives of the Banking Supervision Department, the Company has formulated a method of measuring the collective allowance that takes into account both the rate of past losses and adjustments in respect of the relevant environmental factors.

With regard to credit to private individuals, the rate of adjustment for environmental factors shall not be less than 0.75% of outstanding non-problematic credit at each reporting date with respect to the average loss rates over the range of years.

**Off-balance sheet credit**

The allowance required in respect of off-balance-sheet credit instruments is assessed according to the rules established in 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 conversion as credit of off-balance-sheet credit risk. The credit is converted to risk-adjusted assets based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standardized Approach.

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

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

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

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

**Troubled Debt Restructuring**

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

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

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

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

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

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

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

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

**Charge-Offs**

The Company performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Company has carried out prolonged collection efforts (defined in most cases as a year 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 a 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, compared to the terms of the restructuring.

**Revenue Recognition**

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

### 5. Securities

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

The Company examines, in each reporting period, whether an other-than-temporary impairment has occurred in its investments in shares of other companies. This examination is performed when signs exist that may indicate the possibility that the value of the investments has been impaired, including a decline in stock-market prices, in the investee's business, or in the industry in which the investee operates, and other parameters. The deductions for the adjustments of the value of these investments, which in the opinion of Management are based on an examination of all relevant aspects, with appropriate weight granted to each, which are not of a temporary nature, are allocated to the statement of profit and loss. See also section 7 below.

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

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

### 6. Derivative Financial Instruments

The Company holds derivative financial instruments for the purpose of economic hedges of foreign-currency risks and interest-rate risks. Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Company. Changes in the fair value of these derivatives are recognized in profit and loss when they arise. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.)

### 7. Determining 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 transfer a liability, in an ordinary transaction between market participants, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs.

Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. ASC 820-10 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

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

**Securities**

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

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

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

### 7. Determining the fair value of financial instruments

**Additional non-derivative financial instruments**

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

### 8. Debtors and creditors in respect of credit-card transactions

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

### 9. Offsetting assets and liabilities

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

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

### 9. Offsetting assets and liabilities (cont.)

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

### 10.Transfers and servicing of financial assets and extinguishment of liabilities

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

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

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

### 10. Transfers and servicing of financial assets and extinguishment of liabilities (Cont.)

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

### 11. Fixed Assets (Buildings and Equipment)

**Recognition and Measurement**

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

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item “buildings and equipment.” See section 12 below regarding the accounting treatment of software costs.

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

**Depreciation**

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

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

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

### 11. Fixed Assets (cont.)

Depreciation is charged 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. Land owned by the Company is not depreciated. Leasehold improvements are depreciated over the shorter of the period of the lease and the useful life of the assets.

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

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

The depreciation method, useful life, and residual value are reexamined at least at the end of each financial year, and adjusted when necessary.

### 12. Intangible assets (included in fixed assets)

**Software Costs**

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

The capitalization of internal-use software development costs only commences where: the first stage of a project has been completed; management having the appropriate authority has approved and committed to financing the software development project directly or indirectly and it is expected that the development will be completed and that future economic benefits will be derived from the software. When software is developed or obtained for internal use, the following costs are capitalized: direct material and services costs that have been incurred 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.

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

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

### 12. Intangible assets (included in fixed assets) (Cont.)

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

Intangible assets created in 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 period and adjusted when necessary.

### 13. Leases

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

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

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

### 14. Investment Property

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

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

(b) Sale during the ordinary course of business.

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

### 15. 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 selling expenses (net sale price). In determining value in use, the Company discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of money and the specific risks related to the asset, in respect of which cash flows expected to derive from the asset have not been adjusted.

**Recognition of impairment loss**

Impairment losses are recognized when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss.

**Cancellation of an impairment loss**

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

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

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

### 15. Impairment of non-financial assets (cont.)

**Impairment of in-house software development costs**

Testing for 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;

(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.

**Investments in associate companies**

Investments in associates are examined for impairment in each period, based on the fair value of the investment. Where the Group is unable to measure the fair value, impairment is tested when an event or a change in circumstances has occurred, which could have a significant negative impact on the fair value of the investment.

Testing for impairment is performed in relation to the investment as a whole.

An impairment loss is recognized where the book value of the investment, after implementation of the equity method, exceeds the fair value, and this loss is not temporary. The length of time in which the book value of the investment exceeds the fair value and the associate company's final position are taken into account when testing the type of loss. A non-temporary impairment loss that has been recognized in the past will not be cancelled in subsequent periods.

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

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

### 16. Terminated Stars Loyalty Program

A liability balance exists in the Company's books in respect of the Stars program, which ended on June 30, 2012. This balance has been amortized, beginning January 1, 2014, according to an agreement with the Banking Supervision Department. The amortization method represents the economic trajectory and receding risk in respect of the liability.

### 17. Employees rights

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

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 margin will be determined by the difference between yield rates to maturity, by maturity period, of corporate bonds rated AA or above in the United States, and yield rates to maturity, for the same maturity period, of US government bonds, at the reporting date. The mortality rate is based on the current directives of the Commissioner of Capital Markets, Insurance and Savings as outlined in Circular 2013-1-2 (New Tables for Insurance Companies). The rate of future salary increases is estimated by Management, based on past experience and the collective labor agreement.

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

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

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

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

### 17. Employee rights (cont.)

A past service related cost or credit is amortized as a component of the net service cost for the year on a straight-line over the average service period 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 in other comprehensive income.

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

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

For share-based payment transactions that are classified directly through equity, the fair value is measured at the date of granting with reference to the fair value of instruments granted. The value of the benefit is recognized in profit and loss as a wage expense, against a corresponding increase in equity for purposes of recognizing the expense and its attribution over the appropriate service periods of the employees. The Company takes service conditions and performance conditions (which are not market conditions) into account, so that the recognition is based on the number of instruments for which service conditions and performance conditions are expected to be met. The performance target which can be achieved after the period of service is dealt with as a performance condition.

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

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.

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

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

### 19. Contingent liabilities

The financial statements include adequate 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 between 20% and 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 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.

For further details, see Note 23.D on "Legal Proceedings and Contingencies" below.

### 20. Expenses for Taxes on Income

The Company's financial statements include current and deferred taxes. The provision for taxes on the income of the Company and its consolidated companies that are financial institutions for the purposes of value-added tax includes profit tax imposed on income under the Value Added Tax Law.

The Company allocates tax expenses or tax benefits on income between ordinary activities, other comprehensive income and items directly carried to shareholders' equity.

**Current Taxes**

Current tax is the amount of tax paid or expected to be paid (or received) on the income for the current year, as determined by the implementation of the provisions of the tax laws legislated on the taxable income. Current tax expenses also include the changes in the tax payments with reference to prior years.

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

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

### 20. Expenses for Taxes on Income (cont.)

**Deferred Taxes**

Deferred tax liabilities and deferred tax assets represent the future effects on income taxes arising from temporary differences and carry forward losses at the end of the year.

The Company recognizes deferred tax liabilities in respect of all taxable temporary differences.

The Company recognizes deferred tax assets in respect of all deductible temporary differences and losses carried forward and at the same time recognizes a separate valuation allowance for the same amount included in an asset that is more likely than not not to be realized. The Company reduces the deferred tax assets in the amount of any tax benefits that are not expected to be realized based on the available evidence - both the positive evidence supporting the recognition of a deferred tax asset and the negative evidence supporting the creation of a provision for a deferred tax asset, to determine whether a net deferred tax asset can be recognized.

The available evidence that the Company took into account:

Deferred tax liability or deferred tax asset are measured using the legally enacted tax rates that are expected to apply to sufficient taxable income in periods where it is expected that the deferred tax liability will be settled or the deferred tax asset will be realized.

The Company classifies interest income and expenses in respect of taxes on income in the item "Taxes on income". In addition, the Company classifies fines to the tax authorities in the item "Taxes on income".

**Offsetting Deferred Tax Assets and Liabilities**

The Company offsets deferred tax assets and liabilities, as well as the valuation allowance (provision for a deferred tax asset) that are related, for a certain tax-paying component and within the boundaries of the same tax jurisdiction.

**Uncertain Tax Positions**

The Company implements the rules for recognition, measurement and disclosure set forth in the framework of FIN 48 pursuant to these directives. The Company recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Tax positions that are recognized are measured at the maximum amount whose probability of realization exceeds 50%. Changes in recognition or measurement are reflected in the year in which the changes in circumstances affecting the company's position occurred.

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

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

### 21. 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.

### 22. Statement of Cash Flows

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

### 23. Reporting on Operating Segments

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

### 24. Related Party Disclosures

Information on balance sheet and off-balance sheet balances and the information on the results of transactions with interested parties and related parties is provided in accordance with the Public Reporting Directives for each 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".

### 25. 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.

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

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

### 25. Transactions with Controlling Interests (Cont.)

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

**Loans, including deposits**

At the first recognition date, a 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 applicable. The difference between the amount of the loan granted or deposit received and the fair value thereof at the initial recognition date is allocated to equity.

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

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

### 1. Recognition of revenue 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 a customer.

Pursuant to a circular from the Banking Supervision Department on the subject of the transition directives for the year 2016, there is a requirement to implement the revisions to the Public Reporting Directives in accordance with the circular regarding the adoption of the updates to generally accepted accounting principles on the subject of "revenues from contracts with customers" as from January 1, 2018. This follows the updating of the ASU 2015-14 standard in the United States, which deferred the timing of the initial implementation.

The Standard contains a single model that applies to contracts with customers that includes five stages in order to determine the timing and amount of revenue recognition:

A. Identifying the contract with the customer.

B. Identifying individual performance obligations in the contract.

C. Determining the transaction price.

D. Assigning the transaction price for separate execution obligations.

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

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

#### 1. Recognition of revenue from contracts with customers (Cont.)

E. Recognizing income on fulfillment of performance obligations.

The Standard also prescribes that income will be recognized in the amount expected to be received in return for the transfer of the goods or provision of services to the customer.

At the time of the initial recognition, it is possible to select retrospective implementation, with restatement of the comparative numbers or prospective implementation with reflection of the cumulative impact in equity at the time of the initial implementation.

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

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

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

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

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

The directives in the circular will apply from January 1, 2018.

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

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

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

At the time of the initial implementation, a banking corporation is required to act in accordance with the transition provisions in the US standards, mutatis mutandis, including the retrospective correction of comparative figures if this is required in accordance with the US standards.

In the Company's assessment, the implementation of the directives is not expected to have a significant impact on the financial statements.

### 3. Updating of new standards on the subject of recognition of unrealized rights ("breakage")

In March 2016, the US Financial Accounting Standards Board (the "FASB") published update ASU 2016-04 regarding the recognition of unrealized customer rights for certain prepaid stored-value products, which constitutes the amendment of Topic 405-20 of the Codification regarding Liabilities – the extinguishment of liabilities. The update comes in light of the fact that both generally accepted accounting principles and the existing guidance on the subject in Topic 606 in the Codification regarding revenue from contracts with customers do not provide specific instructions for the extinguishment of liabilities that are connected to unrealized customer rights ("breakage") for prepaid stored-value products such as gift cards and traveler's checks. Therefore, the new amendment improves the generally accepted accounting principles and prevents differences in accounting treatment between different bodies. In accordance with the update, the amounts of liabilities relating to unrealized customer rights are to be treated consistently with the provisions of Standard 606 on the subject of breakage.

The directives apply to US public entities as of interim periods and annual periods commencing after December 15, 2017. In the Company's assessment, the implementation of the directives is not expected to have a significant impact on the financial statements.

### 4. Circular concerning Amendment No. 2017-07 to the Codification of the FASB regarding the improvement in the presentation of pension and other benefits after termination of employment

On December 11, 2017, the Banking Supervision Department issued a circular concerning Amendment No. 2017-07 to the Codification concerning the improvement in the presentation of pension and other benefits after termination of employment.

The amendment clarifies that the cost components of the benefit included in salary expenses should be separated in the profit and loss report so that only the cost of the service will remain in salary expenses, while the rest of the costs should be presented in non-operating expenses (other expenses). Moreover, it was clarified that only the cost of the service can be capitalized, in cases where capitalization of salary expenses is possible, and the other cost components of the benefit cannot be capitalized.

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

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

### 4. Circular concerning Amendment No. 2017-07 to the Codification of the FASB regarding the improvement in the presentation of pension and other benefits after termination of employment

It is required to implement the directives prescribed in accordance with the circular from January 1, 2018 onwards. At the time of initial application, the transitional provisions established in the United States must be followed, mutatis mutandis.

# Note 3 – Income from Credit-Card Transactions

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| **Income from merchants** | | | | | | |
| Merchant fees | 1,112 | 1,091 | 1,072 | 1,113 | 1,093 | 1,074 |
| Other income | 4 | 4 | 4 | 4 | 4 | 4 |
| **Total gross income from merchants** | 1,116 | 1,095 | 1,076 | 1,117 | 1,097 | 1,078 |
| Less fees to other issuers | (282) | (262) | (240) | (282) | (262) | (240) |
| **Total net income from merchants** | 834 | 833 | 836 | 835 | 835 | 838 |
| | | | | | | |
| **Income from credit-card holders** | | | | | | |
| Issuer fees | 318 | 282 | 239 | 318 | 282 | 239 |
| Service fees | 226 | 214 | 213 | 226 | 214 | 213 |
| Fees from transactions abroad | 114 | 104 | 71 | 114 | 104 | 71 |
| **Total income from credit-card holders** | 658 | 600 | 523 | 658 | 600 | 523 |
| **Total income from credit-card transactions** | **1,492** | **1,433** | **1,359** | **1,493** | **1,435** | **1,361** |

## Note 4 – Net Interest Income

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **A. Interest income** | | | | | | |
| From credit to cardholders | 182 | 151 | 101 | 1 | 2 | 2 |
| From credit to merchants | 86 | 77 | 67 | 12 | 11 | 9 |
| From credit to others | *- | *- | *- | - | - | - |
| From deposits with banks | *- | *- | *- | *- | *- | *- |
| From other assets | 21 | 14 | 12 | 23 | 15 | 11 |
| Total interest income | 289 | 242 | 180 | 36 | 28 | 22 |
| **B. Interest expenses** | | | | | | |
| To banking corporations | 18 | 9 | 6 | 15 | 9 | 6 |
| On other liabilities | *- | *- | *- | *- | *- | *- |
| Total interest expenses | 18 | 9 | 6 | 15 | 9 | 6 |
| **Total net interest income** | **271** | **233** | **174** | **21** | **19** | **16** |

* Amount less than NIS 0.5 million.

# Note 5 – Other Income

In NIS millions

## A. Other Income

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| From rental of assets | 4 | 3 | 4 | - | - | - |
| Operating fees from related parties | 29 | 27 | 23 | 32 | 29 | 25 |
| Non-interest financing (expenses) income, net (1) | (9) | (4) | 13 | (9) | (4) | 13 |
| Others | 18 | 18 | 17 | 13 | 14 | 14 |
| **Total other income** | **42** | **44** | **57** | **36** | **39** | **52** |

(1) See Note 5B.

## B. Non-Interest Financing Income, Net

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Net exchange-rate differences | (10) | (5) | 11 | (10) | (5) | 11 |
| Net expenses in respect of derivative instruments | (*-) | (*-) | (*-) | (*-) | (*-) | (*-) |
| **(Losses) profits from investments in shares:** | | | | | | |
| (Losses) profits from sale of shares available for sale and provision for impairment | - | - | (2) | - | - | (2) |
| Dividend from shares available for sale | 1 | 1 | 4 | 1 | 1 | 4 |
| **Total profits from investment in shares** | 1 | 1 | 2 | 1 | 1 | 2 |
| **Total non-interest financing (expenses) income, net** | **(9)** | **(4)** | **13** | **(9)** | **(4)** | **13** |

* Amount less than NIS 0.5 million.

## Note 6 – Operating Expenses

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Wages and related expenses** | 210 | 190 | 187 | 201 | 182 | 178 |
| Data processing and computer maintenance | 36 | 32 | 32 | 34 | 29 | 30 |
| Automatic Bank Services (ABS) | 24 | 23 | 22 | 24 | 23 | 21 |
| Payments to international credit card organizations | 79 | 68 | 59 | 79 | 68 | 59 |
| Amortization and depreciation | 77 | 82 | 87 | 70 | 76 | 80 |
| Communications | 8 | 7 | 7 | 7 | 6 | 7 |
| Production and delivery | 68 | 69 | 65 | 67 | 69 | 65 |
| Damages from abuse of credit cards | 5 | 4 | 6 | 5 | 4 | 6 |
| Rent and building maintenance | 34 | 33 | 30 | 42 | 39 | 37 |
| Bank commissions | 10 | 8 | 8 | 9 | 8 | 7 |
| Others | 29 | 41 | 26 | 26 | 37 | 14 |
| **Total operating expenses** | **580** | **557** | **529** | **564** | **541** | **504** |
| ** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments | *- | 1 | 1 | *- | 1 | 1 |

* Amount less than NIS 0.5 million.

## Note 7 – Sales and Marketing Expenses

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Wages and related expenses** | 78 | 69 | 64 | 72 | 64 | 59 |
| Advertising | 31 | 30 | 23 | 29 | 29 | 23 |
| Customer retention and recruitment** | 50 | 50 | 61 | 50 | 50 | 61 |
| Gift campaigns for credit-card holders | 28 | 12 | 8 | 28 | 12 | 8 |
| Vehicle maintenance | 6 | 5 | 6 | 5 | 5 | 5 |
| Consumer Club management fees | 115 | 90 | 68 | 115 | 90 | 68 |
| Others | 10 | 9 | 5 | 8 | 8 | 6 |
| **Total sales and marketing expenses** | **318** | **265** | **235** | **307** | **258** | **230** |
| ** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments | 4 | 5 | 5 | 4 | 5 | 5 |

## Note 8 – General and Administrative Expenses

In NIS millions

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Wages and related expenses** | 38 | 34 | 29 | 34 | 31 | 26 |
| Professional services | 20 | 18 | 14 | 16 | 16 | 12 |
| Insurance | 4 | 5 | 5 | 4 | 5 | 5 |
| Others | 17 | 13 | 13 | 17 | 12 | 12 |
| **Total general and administrative expenses** | **79** | **70** | **61** | **71** | **64** | **55** |
| ** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments | *- | *- | *- | *- | *- | *- |

* Amount less than NIS 0.5 million.

# Note 9 – Provision for Taxes on Profit

In NIS millions

### 1. Composition:

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Current taxes for the tax year | 120 | 121 | 104 | 59 | 63 | 63 |
| Deferred taxes for the tax year | (21) | (10) | 4 | (4) | 2 | 8 |
| Taxes for previous years | (2) | *- | (*-) | (2) | *- | (*-) |
| **Provision for taxes on income** | **97** | **111** | **108** | **53** | **65** | **71** |

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

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Tax rate applicable to the Company in Israel | 24% | 25% | 26.5% | 24% | 25% | 26.5% |
| Tax amount based on statutory tax rate | 84 | 85 | 96 | 50 | 52 | 69 |
| **Tax increment (saving) in respect of:** | | | | | | |
| Amortization differences, amortization adjustment, and capital gains | (*-) | (*-) | *- | (*-) | (*-) | (*-) |
| Disallowed expenses | 4 | 6 | 3 | 4 | 6 | 3 |
| Exempt expenses | (*-) | (1) | (1) | (*-) | (1) | (1) |
| Benefit from loss and tax credit from a previous period used to reduce current taxes | (2) | (2) | (1) | - | - | - |
| Benefit from temporary differences for a previous period used to reduce deferred taxes | - | *- | - | - | *- | - |
| Change in balance of deferred taxes due to changes in tax rates | 1 | 12 | *- | 1 | 8 | - |
| Tax expenses for previous years | (2) | *- | (*-) | (2) | *- | (*-) |
| Timing differences that do not carry deferred taxes | - | (*-) | 2 | - | - | *- |
| Difference in tax rate on financial institutions | 12 | 11 | 9 | - | - | - |
| **Provision for taxes on income** | **97** | **111** | **108** | **53** | **65** | **71** |

* Amount less than NIS 0.5 million.

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

**3. The Company has final tax assessments up to and including the tax year 2012. Subsidiaries have final tax assessments up to and including the tax year 2012, including tax assessments considered final under the Income Tax Ordinance.**

**4. Changes in deferred taxes (consolidated)**

| | Balance at December 31, 2016 | Changes charged to profit and loss | Effect of the change in the tax rate charged to profit and loss | Changes charged to other comprehensive income | Balance at December 31, 2017 | Average rate of tax 2017 |
|---|---|---|---|---|---|---|
| | | | NIS millions | | | In percent |
| **Deferred tax assets** | | | | | | |
| From allowance for credit losses | 80 | 20 | - | - | 100 | 30.8% |
| From provision for vacations, bonuses | 12 | (*-) | (*-) | - | 12 | 23.0% |
| From surplus of liability for employee rights over plan assets | 28 | 6 | - | (2) | 32 | 23.0% |
| Fixed assets | 1 | (1) | - | - | - | 23.0% |
| Other | 3 | (2) | - | - | 1 | 23.0% |
| **Balance of deferred tax assets, gross** | 124 | 23 | (*-) | (2) | 145 | |
| **Deferred tax liabilities** | | | | | | |
| From securities | 2 | - | (*-) | 1 | 3 | 23.0% |
| From fixed assets | 7 | 2 | (*-) | - | 9 | 23.0% |
| **Balance of deferred tax liabilities, gross** | 9 | 2 | (*-) | 1 | 12 | |
| **Balance of deferred tax assets, net** | 115 | 21 | (*-) | (3) | 133 | |

* Amount less than NIS 0.5 million.

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

**4. Changes in deferred taxes (consolidated) (Cont.)**

| | Balance at December 31, 2015 | Changes charged to profit and loss | Effect of the change in the tax rate charged to profit and loss | Changes charged to other comprehensive income | Balance at December 31, 2016 | Average rate of tax 2016 |
|---|---|---|---|---|---|---|
| | | | NIS millions | | | In percent |
| **Deferred tax assets** | | | | | | |
| From allowance for credit losses | 68 | 21 | (9) | - | 80 | 30.0% |
| From provision for vacations, bonuses | 12 | 1 | (1) | - | 12 | 24.0% |
| From surplus of liability for employee rights over plan assets | 21 | (1) | (2) | 10 | 28 | 23.0% |
| Fixed assets | 4 | (2) | (1) | - | 1 | 23.0% |
| Other | *- | 3 | (*-) | - | 3 | 23.0% |
| **Balance of deferred tax assets, gross** | 105 | 22 | (13) | 10 | 124 | |
| **Deferred tax liabilities** | | | | | | |
| From securities | 2 | - | (*-) | *- | 2 | 24.0% |
| From fixed assets | 8 | *- | (1) | - | 7 | 23.0% |
| **Balance of deferred tax liabilities, gross** | 10 | *- | (1) | *- | 9 | |
| **Balance of deferred tax assets, net** | 95 | 22 | (12) | 10 | 115 | |

* Amount less than NIS 0.5 million.

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

**4. Changes in deferred taxes (Company)**

| | Balance at December 31, 2016 | Changes charged to profit and loss | Effect of the change in the tax rate charged to profit and loss | Changes charged to other comprehensive income | Balance at December 31, 2017 | Average rate of tax 2017 |
|---|---|---|---|---|---|---|
| | | | NIS millions | | | In percent |
| **Deferred tax assets** | | | | | | |
| From allowance for credit losses | 26 | 3 | - | - | 29 | 23.0% |
| From provision for vacations, bonuses | 12 | (*-) | (*-) | - | 12 | 23.0% |
| From surplus of liability for employee rights over plan assets | 28 | 6 | - | (2) | 32 | 23.0% |
| Fixed assets | 1 | (1) | - | - | - | 23.0% |
| Other | 3 | (3) | - | - | *- | 23.0% |
| **Balance of deferred tax assets, gross** | 70 | 5 | (*-) | (2) | 73 | |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| From securities | 2 | - | (*-) | 1 | 3 | 23.0% |
| From fixed assets | - | 1 | - | - | 1 | 23.0% |
| **Balance of deferred tax liabilities, gross** | 2 | 1 | (*-) | 1 | 4 | |
| | | | | | | |
| **Balance of deferred tax assets, net** | 68 | 4 | (*-) | (3) | 69 | |

* Amount less than NIS 0.5 million.

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

**4. Changes in deferred taxes (Company)**

| | Balance at December 31, 2015 | Changes charged to profit and loss | Effect of the change in the tax rate charged to profit and loss | Changes charged to other comprehensive income | Balance at December 31, 2016 | Average rate of tax 2016 |
|---|---|---|---|---|---|---|
| | | | NIS millions | | | In percent |
| **Deferred tax assets** | | | | | | |
| From allowance for credit losses | 26 | 3 | (3) | - | 26 | 23.0% |
| From provision for vacations, bonuses | 11 | 2 | (1) | - | 12 | 24.0% |
| From surplus of liability for employee rights over plan assets | 21 | (1) | (2) | 10 | 28 | 23.0% |
| Fixed assets | 4 | (2) | (1) | - | 1 | 23.0% |
| Other | *- | 3 | (*-) | - | 3 | 23.0% |
| **Balance of deferred tax assets, gross** | 62 | 5 | (7) | 10 | 70 | |
| **Deferred tax liabilities** | | | | | | |
| From securities | 2 | - | (*-) | *- | 2 | 24.0% |
| From fixed assets | - | - | - | - | - | - |
| **Balance of deferred tax liabilities, gross** | 2 | - | (*-) | *- | 2 | |
| **Balance of deferred tax assets, net** | 60 | 5 | (7) | 10 | 68 | |

* Amount less than NIS 0.5 million.

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

**5. Changes in tax rates**

*A. Corporation tax*

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

2015: 26.5%

2016: 25%

2017: 24%

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

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

The impact of the changes that are detailed above on the financial statements as of December 31, 2016, reduced deferred tax liabilities balances by NIS 1 million and deferred tax assets balances by NIS 13 million, with corresponding deferred tax expenses.

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

*B. Update of Value Added Tax and Profit Tax*

On October 12, 2015, the Knesset plenum approved the Value Added Tax Order (Tax Rate for Non-Profits and Financial Institutions) (Amendment), 2015, which determines that the rate of Profit Tax and Salaries Tax that are imposed on financial institutions would decrease from 18% to 17%, from October 1, 2015. As a result of the aforementioned change, the statutory tax rate, which applies to financial institutions, decreased from 37.71% to 37.58% in 2015. Furthermore, as a result of the lowering of the Companies Tax rate to 25% in 2016, to 24% in 2017 and to 23% in 2018 and thereafter, the statutory tax rate was lowered to 35.9% in 2016, to 35% in 2017 and to 34.2% in 2018 and thereafter.

# Note 10 – Cumulative Other Comprehensive Income (Loss)

NIS millions

**A. Changes in cumulative other comprehensive income (loss), after tax**

| | Adjustments for presentation of securities available for sale at fair value | Adjustments for employee rights | Other comprehensive income (loss) attributed to shareholders of the Company |
|---|---|---|---|
| **Balance as at January 1, 2015** | **6** | **-** | **6** |
| Net change during the period | 1 | (2) | (1) |
| | | | |
| **Balance as at January 1, 2016** | **7** | **(2)** | **5** |
| Net change during the period | **1** | **(35)** | **(34)** |
| | | | |
| **Balance as at January 1, 2017** | **8** | **(37)** | **(29)** |
| Net change during the period | 3 | 7 | 10 |
| **Balance as at December 31, 2017** | **11** | **(30)** | **(19)** |

**B. Changes in components of cumulative other comprehensive income (loss), before and after tax**

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | **Before tax** | **Tax effect** | **After tax** |
| **Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company** | | | |
| **Adjustments for presentation of securities available for sale at fair value:** | | | |
| Net unrealized gains (losses) from adjustments to fair value | 4 | (1) | 3 |
| **Total net change during the year** | **4** | **(1)** | **3** |
| **Employee rights** | | | |
| Net actuarial loss in the year | (4) | 1 | (3) |
| Losses (gains) reclassified to the profit and loss statement | 13 | (3) | 10 |
| **Net change during the year** | 9 | (2) | 7 |
| **Total net change during the year** | **13** | **(3)** | **10** |

* Amount less than NIS 0.5 million.

# Note 10 – Cumulative Other Comprehensive Income (Loss) (cont.)

NIS millions

**B. Changes in components of cumulative other comprehensive income (loss), before and after tax (cont.)**

| | For the year ended December 31, 2016 | | |
|---|---|---|---|
| | Before tax | Tax effect | After tax |
| **Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company** | | | |
| **Adjustments for presentation of securities available for sale at fair value:** | | | |
| Net unrealized gains (losses) from adjustments to fair value | 1 | (-*) | 1 |
| **Total net change during the year** | **1** | (-*) | **1** |
| **Employee rights** | | | |
| Net actuarial loss in the year | (47) | 10 | (37) |
| Losses (gains) reclassified to the profit and loss statement | 2 | *- | 2 |
| Net change during the year | (45) | 10 | (35) |
| **Total net change during the year** | **(44)** | **10** | **(34)** |

| | For the year ended December 31, 2015 | | |
|---|---|---|---|
| | Before tax | Tax effect | After tax |
| **Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company** | | | |
| **Adjustments for presentation of securities available for sale at fair value:** | | | |
| Net unrealized gains (losses) from adjustments to fair value | 1 | (-*) | 1 |
| **Total net change during the year** | **1** | (-*) | **1** |
| **Employee rights (1)** | | | |
| Net actuarial loss in the year | (4) | 1 | (3) |
| Losses (gains) reclassified to the profit and loss statement | 1 | *- | 1 |
| Net change during the year | (3) | 1 | (2) |
| **Total net change during the year** | **(2)** | **1** | **(1)** |

* Amount less than NIS 0.5 million.

# Note 11 – Cash on Hand and Deposits with Banks

In NIS millions

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | **2017** | **2016** | **2017** | **2016** |
| Cash on hand(1) | 92 | 91 | 88 | 85 |
| Deposits with banks for original terms of up to 3 months(1) | 5 | 5 | 1 | *- |
| Total cash and cash equivalents | 97 | 96 | 89 | 85 |
| Other deposits with banks(1) | 7 | 13 | 7 | 13 |
| **Total** | **104** | **109** | **96** | **98** |

* Amount less than NIS 0.5 million.

(1) After deduction of allowance for credit losses.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses Reported amounts

In NIS millions

## A. Debtors in respect of credit card activity

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Average annual interest rate 2017 | | Consolidated | | The Company | |
| | | | December 31 | | December 31 | |
| | For daily balance | For transactions in the last month | 2017 | 2016 | 2017 | 2016 |
| | % | % | In NIS millions | | In NIS millions | |
| **Credit risk not under bank guarantee** | | | | | | |
| **Individuals (1)** | | | 4,132 | 3,728 | 1,762 | 1,650 |
| Of which: debtors in respect of credit cards (2) | - | - | 1,762 | 1,650 | 1,762 | 1,650 |
| Of which: credit (2)(3) | 8.2 | 7.8 | 2,370 | 2,078 | - | - |
| **Commercial** | | | 1,250 | 1,242 | 459 | 539 |
| Of which: debtors in respect of credit cards (2) | - | - | 167 | 168 | 167 | 168 |
| Of which: credit (2)(3)(4) | 4.7 | 3.3 | 1,083 | 1,074 | 292 | 371 |
| **Total credit risk not under bank guarantee** | | | 5,382 | 4,970 | 2,221 | 2,189 |
| **Credit risk under bank and other guarantee** | | | | | | |
| Debtors in respect of credit cards | - | - | 10,066 | 9,719 | 10,066 | 9,719 |
| Credit | 6.4 | 6.4 | 63 | 74 | - | - |
| Companies and international credit-card organizations | - | - | 1,371 | 1,432 | 714 | 858 |
| Income receivable | - | - | 33 | 36 | 17 | 18 |
| Others | - | - | 10 | 7 | 10 | 7 |
| **Total debtors in respect of credit-card activity** | | | **16,925** | **16,238** | **13,028** | **12,791** |

* Reclassified

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

(2) Debtors in respect of credit cards - before interest charges. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit – credit with an interest charge including credit transactions, transactions with revolving credit cards, direct credit and other transactions.

(3) Including credit secured by vehicles in the amount of NIS 205 million consolidated (December 31, 2016 – NIS 166 million).

(4) Of which: credit to merchants in the amount of NIS 872 million consolidated (December 31, 2016 – NIS 873 million). This amount includes advance payments, prepayments and balance sheet set-offs (not meeting the condition of settling obligations to merchants under FAS166) in the amount of NIS 284 million consolidated (December 31, 2016 – NIS 362 million).
Of which: credit to merchants in the amount of NIS 292 million in the Company (December 31, 2016 – NIS 371 million). This amount includes advance payments, prepayments and balance sheet set-offs (not meeting the condition of settling obligations to merchants under FAS166) in the amount of NIS 284 million in the Company (December 31, 2015 – NIS 362 million).

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

In NIS millions

**Consolidated**

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

**Allowance for credit losses**

1. Change in balance of allowance for credit losses

| | For the year ended December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | Credit risk under bank and other guarantee (3) | Total |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit(2) | Debtors in respect of credit cards | Credit(2) | | |
| Balance of allowance for credit losses as at December 31, 2016 | 42 | 83 | 3 | 25 | 14 | 167 |
| Expenses in respect of credit losses | 23 | 67 | 1 | 16 | 2 | 109 |
| Charge-offs | (26) | (56) | (2) | (10) | (1) | (95) |
| Recovery of debts charged off in previous years | 8 | 3 | 1 | (4) - | *- | 12 |
| **Net charge-offs** | (18) | (53) | (1) | (10) | (1) | (83) |
| **Balance of allowance for credit losses as at December 31, 2017**** | **47** | **97** | **3** | **31** | **15** | **193** |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 6 | 7 | *- | 2 | 2 | 17 |
| In respect of bank deposits | - | - | - | - | *- | *- |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 7 | 7 |

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

In NIS millions

**Consolidated**

## 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 [(3)] | Total |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[(2)] | Debtors in respect of credit cards | Credit[(2)] | | |
| Balance of allowance for credit losses as at December 31, 2015 | **37** | **-** | **3** | **22** | **12** | **133** |
| Expenses in respect of credit losses | 17 | - | -* | 8 | 4 | 80 |
| Charge-offs | (16) | - | (-*) | (5) | (2) | (51) |
| Recovery of debts charged off in previous years | 4 | - | -* | -[(4)] | -* | 5 |
| **Net charge-offs** | **(12)** | **-** | **(-*)** | **(5)** | **(2)** | **(46)** |
| **Balance of allowance for credit losses as at December 31, 2016**** | **42** | **-** | **3** | **25** | **14** | **167** |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 5 | - | -* | 3 | 2 | 17 |
| In respect of bank deposits | - | - | - | - | -* | -* |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 5 | 5 |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

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

**Allowance for credit losses**

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

| | For the year ended December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | Credit risk under bank and other guarantee [(3)] | Total |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[(2)] | Debtors in respect of credit cards | Credit[(2)] | | |
| Balance of allowance for credit losses as at December 31, 2014 | 37 | 46 | 3 | 21 | 10 | 117 |
| Expenses in respect of credit losses | 5 | 21 | 1 | 3 | 2 | 32 |
| Charge-offs | (10) | (10) | (1) | (2) | (-*) | (23) |
| Recovery of debts charged off in previous years | 5 | 2 | -* | -[(4)] | -* | 7 |
| **Net charge-offs** | **(5)** | **(8)** | **(1)** | **(2)** | **(-*)** | **(16)** |
| **Balance of allowance for credit losses as at December 31, 2015**** | **37** | **59** | **3** | **22** | **12** | **133** |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 5 | 7 | -* | 3 | 2 | 17 |
| In respect of bank deposits | - | - | - | - | -* | -* |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 3 | 3 |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

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

**Allowance for credit losses**

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

* Amount less than NIS 0.5 million.

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

(2) Income-bearing credit – this credit includes credit transactions, revolving credit card transactions, credit to credit card holders, credit not to credit card holders and other transactions.

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

(4) Collection from merchants is performed by offsetting new sales slips captured by the system.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**Allowance for credit losses**

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

| | For the year ended December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | Credit risk under bank and other guarantee[3] | Total |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[2] | Debtors in respect of credit cards | Credit[2] | | |
| Balance of allowance for credit losses as at December 31, 2016 | 42 | - | 3 | 5 | 8 | 58 |
| Expenses (income) in respect of credit losses | 23 | - | 1 | 1 | 3 | 28 |
| Charge-offs | (26) | - | (2) | (1) | (2) | (31) |
| Recovery of debts charged off in previous years | 8 | - | 1 | [4] - | *- | 9 |
| **Net charge-offs** | (18) | - | (1) | (1) | (2) | (22) |
| | **47** | **-** | **3** | **5** | **9** | **64** |
| **Balance of allowance for credit losses as at December 31, 2017**** | | | | | | |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 6 | - | *- | 1 | 1 | 8 |
| In respect of bank deposits | - | - | - | - | *- | *- |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 7 | 7 |

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**Allowance for credit losses**

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

| | For the year ended December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | Credit risk under bank and other guarantee [3] | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[2] | Debtors in respect of credit cards | Credit[2] | | Total |
| Balance of allowance for credit losses as at December 31, 2015 | **37** | **-** | **3** | **4** | **6** | **50** |
| Expenses (income) in respect of credit losses | 17 | - | -* | 3 | 4 | 24 |
| Charge-offs | (16) | - | (-*) | (2) | (2) | (20) |
| Recovery of debts charged off in previous years | 4 | - | -* | -[4] | - | 4 |
| **Net charge-offs** | **(12)** | **-** | **(-*)** | **(2)** | **(2)** | **(16)** |
| **Balance of allowance for credit losses as at December 31, 2016**** | **42** | **-** | **3** | **5** | **8** | **58** |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 5 | - | -* | -* | 2 | 7 |
| In respect of bank deposits | - | - | - | - | -* | -* |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 5 | 5 |

See notes below.

## Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**Allowance for credit losses**

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

| | For the year ended December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | Credit risk under bank and other guarantee (3) | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit(2) | Debtors in respect of credit cards | Credit(2) | | Total |
| Balance of allowance for credit losses as at December 31, 2014 | 37 | - | 3 | 5 | 7 | 52 |
| Expenses (income) in respect of credit losses | 5 | - | 1 | -* | (-*) | 6 |
| Charge-offs | (10) | - | (1) | (1) | (1) | (13) |
| Recovery of debts charged off in previous years | 5 | - | -* | -(4) | -* | 5 |
| **Net charge-offs** | **(5)** | **-** | **(1)** | **(1)** | **(1)** | **(8)** |
| **Balance of allowance for credit losses as at December 31, 2014**** | **37** | **-** | **3** | **4** | **6** | **50** |
| **** Of which:** | | | | | | |
| In respect of off-balance-sheet credit instruments | 5 | - | -* | -* | 2 | 7 |
| In respect of bank deposits | - | - | - | - | -* | -* |
| In respect of debtors in respect of credit cards under bank guarantee | - | - | - | - | 3 | 3 |

See notes below.

## Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**Allowance for credit losses**

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

* Amount less than NIS 0.5 million.
(1) Debtors in respect of credit card activity, bank deposits and other debts.
(2) Income-bearing credit – this credit includes credit transactions, revolving credit card transactions, credit to credit card holders, credit not to credit card holders and other transactions.
(3) Debtors and credit in respect of credit cards under bank guarantee, bank deposits, companies and international credit-card organizations, income receivable, and other debtors.
(4) Collection from merchants is performed by offsetting new sales slips captured by the system.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

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

**2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts**

| | As of December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[2] | Debtors in respect of credit cards | Credit[2] | Credit risk under bank and other guarantee [3] | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | 1 | 1 | 32 | 577 | 1,001 | 1,612 |
| Examined on a collective basis | 1,761 | 2,369 | 135 | 506 | 11,135 | 15,906 |
| **Total debts** | 1,762 | 2,370 | 167 | 1,083 | 12,136 | 17,518 |
| **Allowance for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | 1 | 1 | 1 | 18 | 6 | 27 |
| Examined on a collective basis | 40 | 89 | 2 | 11 | 7 | 149 |
| **Total allowance for credit losses** | **41** | **90** | **3** | **29** | **13** | **176** |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

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

**2. Additional information regarding the method of calculation of the allowance for credit losses in respect of debts and the debts for which it was calculated**

| | As of December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[(2)] | Debtors in respect of credit cards | Credit[(2)] | Credit risk under bank and other guarantee [(3)] | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | 2 | 1 | 40 | 579 | 797** | 1,419 |
| Examined on a collective basis | 1,648 | 2,077 | 128 | 495 | 10,930** | 15,278 |
| **Total debts** | **1,650** | **2,078** | **168** | **1,074** | **11,727** | **16,697** |
| **Allowance for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | 2 | 1 | 1 | 12 | 5 | 21 |
| Examined on a collective basis | 35 | 75 | 2 | 10 | 7 | 129 |
| **Total allowance for credit losses** | **37** | **76** | **3** | **22** | **12** | **150** |

* Amount less than NIS 0.5 million.

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

(2) Income-bearing credit – this credit includes credit transactions, revolving credit card transactions, credit to credit card holders, credit not to credit card holders and other transactions.

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

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**2. Additional information regarding the method of calculation of the allowance for credit losses in respect of debts and the debts for which it was calculated (cont.)**

| | For the year ended December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[2] | Debtors in respect of credit cards | Credit[2] | Credit risk under bank and other guarantee [3] | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | 1 | - | 32 | 198 | 4 | 235 |
| Examined on a collective basis | 1,761 | - | 135 | 94 | 10,910 | 12,900 |
| **Total debts** | 1,762 | - | 167 | 292 | 10,914 | 13,135 |
| **Allowance for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | 1 | - | 1 | 2 | *- | 4 |
| Examined on a collective basis | 40 | - | 2 | 2 | 8 | 52 |
| **Total allowance for credit losses** | **41** | **-** | **3** | **4** | **8** | **56** |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**The Company**

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

**2. Additional information regarding the method of calculation of the allowance for credit losses in respect of debts and the debts for which it was calculated (cont.)**

| | For the year ended December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Credit risk not under bank guarantee | | | | | |
| | Private | | Commercial | | | |
| | Debtors in respect of credit cards | Credit[2] | Debtors in respect of credit cards | Credit[2] | Credit risk under bank and other guarantee [3] | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | 2 | - | 40 | 276 | 13 | 331 |
| Examined on a collective basis | 1,648 | - | 128 | 95 | 10,706 | 12,577 |
| **Total debts** | **1,650** | **-** | **168** | **371** | **10,719** | **12,908** |
| **Allowance for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | 2 | - | 1 | 2 | *- | 5 |
| Examined on a collective basis | 35 | - | 2 | 3 | 6 | 46 |
| **Total allowance for credit losses** | **37** | **-** | **3** | **5** | **6** | **51** |

* Amount less than NIS 0.5 million.
(1) Debtors in respect of credit card activity, bank deposits and other debts.
(2) Income-bearing credit – this credit includes credit transactions, revolving credit card transactions, credit to credit card holders, credit not to credit card holders and other transactions.
(3) Debtors and credit in respect of credit cards under bank guarantee, bank deposits, companies and international credit-card organizations, income receivable, and other debtors.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

## C. Debts[(1)]

### 1. Credit quality and arrears

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic[(2)] | | | Unimpaired debts – additional information | |
| | Non-problematic | Unimpaired | Impaired [(3)] | Total | In arrears of 90 days or more | In arrears of 30 to 89 days [(4)] |
| **Debts not under bank guarantee** | | | | | | |
| **Private individuals** | | | | | | |
| Debtors in respect of credit cards | 1,725 | 30 | 7 | 1,762 | - | 6 |
| Credit | 2,173 | 185 | 12 | 2,370 | - | 16 |
| **Commercial** | | | | | | |
| Debtors in respect of credit cards | 163 | 3 | 1 | 167 | - | 1 |
| Credit | 1,046 | 22 | 15 | 1,083 | - | 3 |
| **Debts under bank and other guarantee [(5)]** | 12,135 | *- | 1 | 12,136 | - | *- |
| **Total** | **17,242 (6)** | **240** | **36** | **17,518** | **-** | **26** |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

## C. Debts(1) (cont.)

### 1. Credit quality and arrears (cont.)

| | 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 | 1,613 | 30 | 7 | 1,650 | - | 6 |
| Credit | 1,902 | 168 | 8 | 2,078 | - | 11 |
| **Commercial** | | | | | | |
| Debtors in respect of credit cards | 165 | 2 | 1 | 168 | - | 1 |
| Credit | 1,046 | 19 | 9 | 1,074 | - | 3 |
| **Debts under bank and other guarantee (5)** | **11,725** | **-*** | **2** | **11,727** | **-** | **-*** |
| **Total** | **16,451 (6)** | **219** | **27** | **16,697** | **-** | **21** |

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.

(2) Impaired, substandard and debts under special supervision.

(3) Impaired debts not accruing interest income. For information on certain impaired debts that underwent troubled debt restructuring, see Note 12.C.2,C below.

(4) Debts in arrears of 30 to 89 days have been classified as unimpaired problematic debts not accruing interest income.

(5) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

(6) Of which: credit risk in the amount of NIS 17,145 as of December 31, 2017 and in the amount of NIS 16,360 million as of December 31, 2016, whose credit rating at the date of the report agrees with the credit rating for new credit performance pursuant to the policy of the Company.

**Credit Quality**

The status of the arrears is monitored routinely, and constitutes one of the key indicators of credit quality. The status of the arrears affects the classification of debts evaluated on a collective basis (the classification is more severe with more extensive arrears). After 150 days of arrears, the Company charges off the debt.

## Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

### C. Debts(1) (cont.)

**2. Additional information regarding impaired debts**

**a. Impaired debts and individual allowance**

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance of impaired debts for which an individual allowance exists (2) (3) | Balance of individual allowance (3) | Balance of impaired debts for which no individual allowance exists (2) | Total balance of impaired debts (2) | Contractual balance of principal of impaired debts |
| **Debts not under bank guarantee** | | | | | |
| **Private individuals** | | | | | |
| Debtors in respect of credit cards | 1 | 1 | 6 | 7 | 7 |
| Credit | *- | *- | 12 | 12 | 12 |
| **Commercial** | | | | | |
| Debtors in respect of credit cards | *- | *- | 1 | 1 | 1 |
| Credit | 13 | 11 | 2 | 15 | 15 |
| **Debts under bank and other guarantee (4)** | *- | *- | 1 | 1 | 1 |
| **Total**** | **14** | **12** | **22** | **36** | **36** |
| ** Of which: | | | | | |
| Debts in troubled debt restructuring | 1 | 1 | - | 1 | 1 |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

**Consolidated**

## C. Debts(1) (cont.)

**2. Additional information regarding impaired debts**

**a. Impaired debts and individual allowance**

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | **Balance of impaired debts for which an individual allowance exists (2) (3)** | **Balance of individual allowance (3)** | **Balance of impaired debts for which no individual allowance exists (2)** | **Total balance of impaired debts (2)** | **Contractual balance of principal of impaired debts** |
| **Debts not under bank guarantee** | | | | | |
| **Private individuals** | | | | | |
| Debtors in respect of credit cards | 2 | 2 | 5 | 7 | 7 |
| Credit | 1 | 1 | 7 | 8 | 8 |
| **Commercial** | | | | | |
| Debtors in respect of credit cards | -* | -* | 1 | 1 | 1 |
| Credit | 7 | 7 | 2 | 9 | 9 |
| **Debts under bank and other guarantee (4)** | 1 | 1 | 1 | 2 | 2 |
| **Total**** | **11** | **11** | **16** | **27** | **27** |
| ** Of which: | | | | | |
| Debts in troubled debt restructuring | **3** | **3** | **-** | **3** | **3** |

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Recorded debt balance.
(3) Individual allowance for credit losses.
(4) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

In NIS millions

## C. Debts [(1)] (cont.)

## 2. Additional information regarding impaired debts (cont.)

### b. Average balance of impaired debts [(2)] [(3)]

| | Consolidated | | |
|---|---|---|---|
| | For the year ended December 31 | | |
| | **2017** | **2016** | **2015** |
| **Debts not under bank guarantee** | | | |
| **Private individuals** | | | |
| Debtors in respect of credit cards | 1 | 1 | 3 |
| Credit | *- | 1 | 1 |
| **Commercial** | | | |
| Debtors in respect of credit cards | *- | *- | *- |
| Credit | 8 | 6 | 2 |
| **Debts under bank and other guarantee (4)** | 1 | 1 | *- |
| **Total** | **10** | **9** | **6** |

In the years 2015-2017 interest income was not recorded in respect of these balances.

# Note 12 – 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 restructurings [(3)]

| | Consolidated | |
|---|---|---|
| | For the year ended December 31 | |
| | 2017 | 2016 |
| **Debts not under bank guarantee** | | |
| **Private individuals** | | |
| Debtors in respect of credit cards | 1 | 2 |
| Credit | *- | 1 |
| **Commercial** | | |
| Debtors in respect of credit cards | *- | *- |
| Credit | *- | *- |
| **Debts under bank and other guarantee (4)** | - | - |
| **Total** | **1** | **3** |

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.

(2) Average recorded debt balance of impaired debts examined individually in the reporting period.

(3) Not accruing interest income.

(4) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

In NIS millions

**Consolidated**

## C. Debts [1] (cont.)

**2. Additional information regarding impaired debts (cont.)**

**c. Troubled debt restructurings**

| | For the year ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt restructured during the reporting period[2] | | | Failed debt restructurings** | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | Recorded debt balance |
| **Debts not under bank guarantee** | | | | | |
| **Private individuals** | | | | | |
| Debtors in respect of credit cards | 1,012 | 7 | 7 | 243 | 2 |
| Credit | 77 | 1 | 1 | 22 | *- |
| **Commercial** | | | | | |
| Debtors in respect of credit cards | 57 | *- | *- | 13 | *- |
| Credit | 35 | 1 | 1 | 3 | *- |
| **Debts under bank and other guarantee (3)** | - | - | - | - | - |
| **Total** | **1,181** | **9** | **9** | **281** | **2** |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

**Consolidated**

## B. Debts [1] (cont.)

### 2. Additional information regarding impaired debts (cont.)

### c. Troubled debt restructurings (cont.)

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Debt restructured during the reporting period[2] | | | Failed debt restructurings** | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | Recorded debt balance |
| **Debts not under bank guarantee** | | | | | |
| **Private individuals** | | | | | |
| Debtors in respect of credit cards | 1,210 | 6 | 6 | 270 | 1 |
| Credit | 92 | -* | -* | 25 | -* |
| **Commercial** | | | | | |
| Debtors in respect of credit cards | 68 | 1 | 1 | 16 | -* |
| Credit | 31 | 1 | 1 | 3 | -* |
| **Debts under bank and other guarantee (3)** | - | - | - | - | - |
| **Total** | **1,401** | **8** | **8** | **314** | **1** |

See notes below.

# Note 12 – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

**Consolidated**

## B. Debts (1) (cont.)

### 2. Additional information regarding impaired debts (cont.)

### c. Troubled debt restructurings (cont.)

| | For the year ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Debt restructured during the reporting period(2) | | | Failed debt restructurings** | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | Recorded debt balance |
| **Debts not under bank guarantee** | | | | | |
| **Private individuals** | | | | | |
| Debtors in respect of credit cards | 1,120 | 6 | 6 | 179 | 1 |
| Credit | 179 | 1 | 1 | 40 | -* |
| **Commercial** | | | | | |
| Debtors in respect of credit cards | 52 | -* | -* | 13 | -* |
| Credit | 47 | -* | -* | 4 | -* |
| **Debts under bank and other guarantee (3)** | - | - | - | - | - |
| **Total** | **1,398** | **7** | **7** | **236** | **1** |

* Amount less than NIS 0.5 million.

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

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.
(2) Average recorded debt balance of impaired debts examined individually in the reporting period.
(3) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

# Note 12A – Debtors (1) in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk(1)(3) by Size of Borrowers' Indebtedness

**Consolidated**

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | | Debtors in respect of credit-card activity | | |
| | Number of borrowers (2) | Total | Of which: under responsibility of banks | Off-balance-sheet credit risk (3) |
| | | In NIS millions | | |
| **Credit ceiling (in NIS thousands)** | | | | |
| Borrower balances up to 5 | 1,469,685 | 1,875 | 1,778 | 564 |
| Borrower balances over 5 and up to 10 | 471,501 | 2,525 | 2,333 | 800 |
| Borrower balances over 10 and up to 15 | 275,412 | 1,976 | 1,659 | 1,375 |
| Borrower balances over 15 and up to 20 | 157,426 | 1,542 | 1,165 | 1,179 |
| Borrower balances over 20 and up to 30 | 175,045 | 2,174 | 1,377 | 2,098 |
| Borrower balances over 30 and up to 40 | 84,130 | 1,453 | 694 | 1,444 |
| Borrower balances over 40 and up to 80 | 87,593 | 2,539 | 843 | 1,883 |
| Borrower balances over 80 and up to 150 | 6,773 | 461 | 162 | 205 |
| Borrower balances over 150 and up to 300 | 1,068 | 183 | 49 | 27 |
| Borrower balances over 300 and up to 600 | 428 | 152 | 26 | 23 |
| Borrower balances over 600 and up to 1,200 | 196 | 136 | 19 | 28 |
| Borrower balances over 1,200 and up to 2,000 | 65 | 73 | 12 | 30 |
| Borrower balances over 2,000 and up to 4,000 | 44 | 77 | 12 | 46 |
| Borrower balances over 4,000 and up to 8,000 | 29 | 99 | - | 58 |
| Borrower balances over 8,000 and up to 20,000 | 18 | 139 | - | 95 |
| Borrower balances over 20,000 and up to 40,000 | 8 | 139 | - | 74 |
| Borrower balances over 40,000 and up to 200,000 | 1 | - | - | 81 |
| Borrower balances over 200,000 and up to 400,000 | 1 | 252 | - | - |
| Borrower balances over 400,000 and up to 800,000 | 2 | 1,087 | - | - |
| **Total** | 2,729,425 | 16,882 | 10,129 | 10,010 |
| | | | | |
| Income receivable and others | - | 43 | - | - |
| **Total** | **2,729,425** | **16,925** | **10,129** | **10,010** |

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of single borrowers and groups of borrowers.
(2) Number of borrowers by total debtors and off-balance-sheet credit risk.
(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

# Note 12A – Debtors [(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk[(1)(3)] by Size of Borrowers' Indebtedness

**Consolidated**

| | December 31, 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 | 1,426,109 | 1,818 | 1,726 | 611 |
| Borrower balances over 5 and up to 10 | 466,215 | 2,427 | 2,244 | 878 |
| Borrower balances over 10 and up to 15 | 267,961 | 1,882 | 1,589 | 1,393 |
| Borrower balances over 15 and up to 20 | 154,917 | 1,455 | 1,119 | 1,233 |
| Borrower balances over 20 and up to 30 | 172,261 | 2,065 | 1,330 | 2,172 |
| Borrower balances over 30 and up to 40 | 82,609 | 1,423 | 678 | 1,431 |
| Borrower balances over 40 and up to 80 | 81,556 | 2,306 | 828 | 1,811 |
| Borrower balances over 80 and up to 150 | 5,900 | 401 | 162 | 181 |
| Borrower balances over 150 and up to 300 | 1,127 | 202 | 51 | 24 |
| Borrower balances over 300 and up to 600 | 392 | 145 | 29 | 17 |
| Borrower balances over 600 and up to 1,200 | 149 | 103 | 16 | 18 |
| Borrower balances over 1,200 and up to 2,000 | 41 | 58 | 8 | 10 |
| Borrower balances over 2,000 and up to 4,000 | 43 | 89 | 13 | 29 |
| Borrower balances over 4,000 and up to 8,000 | 18 | 82 | - | 17 |
| Borrower balances over 8,000 and up to 20,000 | 18 | 143 | - | 78 |
| Borrower balances over 20,000 and up to 40,000 | 5 | 70 | - | 67 |
| Borrower balances over 40,000 and up to 200,000 | 4 | 115 | - | 95 |
| Borrower balances over 200,000 and up to 400,000 | 1 | 234 | - | - |
| Borrower balances over 400,000 and up to 800,000 | 2 | 1,177 | - | - |
| **Total** | **2,659,328** | **16,195** | **9,793** | **10,065** |
| Income receivable and others | - | 43 | - | - |
| **Total** | **2,659,328** | **16,238** | **9,793** | **10,065** |

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of single borrowers and groups of borrowers.
(2) Number of borrowers by total debtors and off-balance-sheet credit risk.
(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

## Note 13 – Securities

In NIS millions

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Balance-sheet value | Depreciated cost (in shares – cost) | Accumulated other comprehensive income*** | Fair value** |
| Securities available for sale: | | | | |
| Shares of others* | 26 | 11 | 15 | 26 |
| **Total securities available for sale** | **26** | **11** | **15** | **26** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Balance-sheet value | Depreciated cost (in shares – cost) | Accumulated other comprehensive income*** | Fair value** |
| Securities available for sale: | | | | |
| Shares of others* | 20 | 9 | 11 | 20 |
| **Total securities available for sale** | **20** | **9** | **11** | **20** |

* Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of approximately NIS 9 million as at December 31, 2017 (December 31, 2016 - NIS 7 million).

** Fair-value data are based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from the sale of a large volume of securities.

*** Included in the statement of comprehensive income.

# Note 14 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies

In NIS millions

## 1. Composition

### A. Consolidated

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Associate companies | Consolidated companies | Total | Associate companies | Consolidated companies | Total |
| Investments in shares measured using the equity method | 5 | - | 5 | 3 | - | 3 |
| **Other investments** | | | | | | |
| Shareholders' loans | - | - | - | - | - | - |
| **Total investments** | **5** | **-** | **5** | **3** | **-** | **3** |
| Of which: profits (losses) accrued since acquisition date | 4 | - | 4 | 3 | - | 3 |
| **Of which accrued in equity since acquisition date** | | | | | | |
| **Details of goodwill**: | | | | | | |
| Original amount | - | 10 | 10 | - | 10 | 10 |
| Book balance | - | - | - | - | - | - |

### B. The Company

| | | | | | | |
|---|---|---|---|---|---|---|
| Investments in shares measured using the equity method | 5 | 528 | 533 | 3 | 433 | 436 |
| **Total investments** | **5** | **528** | **533** | **3** | **433** | **436** |
| Of which: profits (losses) accrued since acquisition date | 4 | 462 | 466 | 3 | 367 | 370 |

# Note 14 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies (cont.)

In NIS millions

**2. The Company's share in profits or losses of investee companies (consolidated: associate)**

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| The Company's share in profits before the effect of taxes of investee companies (consolidated: associates) | 1 | 2 | *- | 140 | 134 | 97 |
| Losses from impairment of investee companies (consolidated: associates) | - | (1) | (2) | - | (1) | - |
| **Provision for taxes:** | | | | | | |
| Current taxes | - | - | - | 61 | 58 | 41 |
| Deferred taxes | - | - | - | (17) | (12) | (4) |
| **Total provision for taxes** | - | - | - | 44 | 46 | 37 |
| **The Company's share in profits (losses) after the effect of taxes of investee companies (consolidated: associates)** | **1** | **1** | **(2)** | **96** | **87** | **60** |

* Amount less than NIS 0.5 million.

# Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

## 3. Details

### A. Consolidated subsidiaries

| Company name and activity (1) (2) | Share in capital granting the right to receive profits | | Share in voting rights | | Equity investment at equity (3) | | Dividend recorded | | Other capital investments | | Contribution to net profit attributed to shareholders of the Company | | Loss from impairment | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | In percent | | | | In NIS millions | | | | | | | | | |
| **Isracard Mimun Ltd.** Activity: Granting credit | 100% | 100% | 100% | 100% | 288 | 219 | - | - | - | - | 69 | 63 | - | - |
| **Isracard Nechasim Ltd.** Activity: Property company | 100% | 100% | 100% | 100% | 78 | 69 | - | 10 | - | - | 9 | 8 | - | - |
| **Global Factoring Ltd.** Activity: Debt discounting | 100% | 100% | 100% | 100% | 31 | 21 | - | - | - | - | 10 | 7 | - | - |
| **Europay (Eurocard) Israel Ltd. (4)** Activity: Banking auxiliary corporation | 100% | 100% | 100% | 100% | 6 | 6 | - | - | - | - | *- | *- | - | - |
| **Tzameret Mimunim Ltd.** Activity: Credit-card transaction discounting | 100% | 100% | 100% | 100% | (5) 125 | (5) 118 | - | - | - | - | 7 | 8 | - | - |

See notes below.

# Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

## 3. Details

### B. Associate companies

| Company name and activity (1) (2) | Share in capital granting the right to receive profits | | Share in voting rights | | Equity investment at equity | | Dividend recorded | | Other capital investments | | Contribution to net profit attributed to shareholders of the Company | | Gain (loss) from impairment | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | In percent | | | | In NIS millions | | | | | | | | | |
| **Kidum Mivne Iguach Ltd.** | | | | | | | | | | | | | | |
| Activity: Granting vehicle loans | 20% | 20% | 20% | 20% | -* | -* | - | - | - | - | *- | *- | - | - |
| **Life Style Financing Ltd.** | | | | | | | | | | | | | | |
| Activity: Granting credit | 15% | 15% | 15% | 15% | 3 | 4 | - | - | - | - | 2 | 1 | - | - |
| **I.D.D.S. Services Ltd.** | | | | | | | | | | | | | | |
| Activity: Internet stores | 20% | 20% | 20% | 20% | - | - | - | - | - | - | (*-) | (1) | - | (6) (1) |
| **E.Z. Match Ltd.** | | | | | | | | | | | | | | |
| Activity: Credit card reconciliations | 20% | - | 20% | - | 1 | - | - | - | - | - | - | - | - | - |

* Amount less than NIS 0.5 million.

(1) Details in accordance with Section 32G of the Public Reporting Directives - Annual Financial Statements.

(2) All of the companies are held directly by the Company.

(3) Including balances of surplus costs attributed and goodwill, net of cumulative losses from impairment.

(4) As a banking auxiliary corporation, Europay complies with the regulatory capital requirements pursuant to Proper Conduct of Banking Business Directives No. 201-211, 299.

During 2016, Europay issued shares for NIS 1.5 million.

(5) Including a capital note repayable in the amount of NIS 65 million.

(6) Including a provision for impairment in respect of shareholders' loans.

# Note 14 – Investments in Investee Companies (Consolidated: Associate companies) and Information Regarding these Companies (cont.)

In NIS millions

**C. Condensed information regarding associate companies**

1. Condensed information on financial position

| | Percentage of ownership | Total assets | Total liabilities | Equity attributed to owners of the company | Book value of investment in associate company |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Kidum Mivne Iguach Ltd. (1) | 20% | 21 | 19 | 2 | *- |
| Life Style Financing Ltd. (2) | 15% | 175 | 152 | 23 | 4 |
| I.D.D.S. Services Ltd. | 20% | 2 | 2 | (*-) | - |
| E.Z. Match Ltd. | 20% | 2 | 2 | *- | 1 |

| | Percentage of ownership | Total assets | Total liabilities | Equity attributed to owners of the company | Book value of investment in associate company |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Kidum Mivne Iguach Ltd. (1) | 20% | 23 | 21 | 2 | *- |
| Life Style Financing Ltd. (2) | 15% | 158 | 142 | 16 | 3 |
| I.D.D.S. Services Ltd. | 20% | 1 | 2 | (1) | - |

# Note 14 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

In NIS millions

**C. Condensed information regarding associates (cont.)**

2. Condensed information on results of operations

| | Percentage of ownership | Annual net profit (loss) | Profit (loss) attributed to owners of the Company |
|---|---|---|---|
| **2017** | | | |
| Kidum Mivne Iguach Ltd. | 20% | *- | *- |
| Life Style Financing Ltd. | 15% | 7 | 7 |
| I.D.D.S. Services Ltd. | 20% | (*-) | (*-) |
| E.Z. Match Ltd. | 20% | *- | *- |
| **2016** | | | |
| Kidum Mivne Iguach Ltd. | **20%** | * | * |
| Life Style Financing Ltd. | **15%** | **6** | **6** |
| I.D.D.S. Services Ltd. | **20%** | **(-*)** | **(-*)** |
| **2015** | | | |
| Kidum Mivne Iguach Ltd. | 20% | * | * |
| Life Style Financing Ltd. | 15% | 5 | 5 |

* Amount less than NIS 0.5 million.

(1) Includes a shareholders' loan.

(2) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is less than 20%, due to the existence of qualitative indicators of material influence, including representation on the Company's board of directors.

# Note 15 – Buildings and Equipment

In NIS millions

**Consolidated**

**A. Composition**

| | Buildings and land | Installations and improvements to rental properties | Computers and peripheral equipment | Software costs(1) | Vehicles | Furniture and office equipment | Other | Investment property | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| **As at December 31, 2016** | **53** | **92** | **208** | **597** | **1** | **66** | **5** | **18** | **1,040** |
| Additions | - | 3 | 6 | 67 | - | 4 | - | - | 80 |
| Disposals | - | - | - | - | - | - | - | - | - |
| **As at December 31, 2017** | **53** | **95** | **214** | **664** | **1** | **70** | **5** | **18** | **1,120** |
| **Accumulated depreciation:** | | | | | | | | | |
| **As at December 31, 2016** | **14** | **54** | **178** | **478** | **1** | **44** | **2** | **5** | **776** |
| Additions | 1 | 5 | 16 | 52 | - | 3 | - | - | 77 |
| Disposals | - | - | - | - | - | - | - | - | - |
| **As at December 31, 2017** | **15** | **59** | **194** | **530** | **1** | **47** | **2** | **5** | **853** |
| **Depreciated balance as at December 31, 2017** | **38** | **36** | **20** | **134** | ***-** | **23** | **3** | **13** | **267** |
| **Depreciated balance as at December 31, 2016** | **39** | **38** | **30** | **119** | ***-** | **22** | **3** | **13** | **264** |
| Average weighted depreciation rate in 2017 (%) | 2.0 | 7.2 | 26.7 | 25.0 | 15.0 | 10.0 | 25.0 | 2.0 | |
| Average weighted deprecation rate in 2012 (%) | 2.0 | 7.2 | 26.7 | 25.0 | 15.0 | 10.0 | 25.0 | 2.0 | |

* Amount less than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which amounted to NIS 359 million as at December 31, 2017 (December 31, 2016 - NIS 323 million).

(2) Reclassified

**B. Additional Disclosure Regarding Investment Property**

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of discount rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A discount rate of 8% was used.
- The fair value of investment property assets as at December 31, 2017, amounts to NIS 20 million (December 31, 2016: NIS 20 million).
- Rental income from investment property amounted to approximately NIS 4 million in 2017, compared with approximately NIS 3 million and NIS 4 million in 2016 and in 2015, respectively.

# Note 15 – Buildings and Equipment

In NIS millions

**Consolidated**

**A. Composition**

| | Buildings and land | Installations and improvements to rental properties | Computers and peripheral equipment | Software costs(1) | Vehicles | Furniture and office equipment | Other | Investment property | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| **As at December 31, 2016** | **53** | **92** | **208** | **597** | **1** | **66** | **5** | **18** | **1,040** |
| Additions | - | 3 | 6 | 67 | - | 4 | - | - | 80 |
| Disposals | - | - | - | - | - | - | - | - | - |
| **As at December 31, 2017** | **53** | **95** | **214** | **664** | **1** | **70** | **5** | **18** | **1,120** |
| **Accumulated depreciation:** | | | | | | | | | |
| **As at December 31, 2016** | **14** | **54** | **178** | **478** | **1** | **44** | **2** | **5** | **776** |
| Additions | 1 | 5 | 16 | 52 | - | 3 | - | - | 77 |
| Disposals | - | - | - | - | - | - | - | - | - |
| **As at December 31, 2017** | **15** | **59** | **194** | **530** | **1** | **47** | **2** | **5** | **853** |
| **Depreciated balance as at December 31, 2017** | **38** | **36** | **20** | **134** | ***-** | **23** | **3** | **13** | **267** |
| **Depreciated balance as at December 31, 2016** | **39** | **38** | **30** | **119** | ***-** | **22** | **3** | **13** | **264** |
| Average weighted depreciation rate in 2017 (%) | 2.0 | 7.2 | 26.7 | 25.0 | 15.0 | 10.0 | 25.0 | 2.0 | |
| Average weighted deprecation rate in 2012 (%) | 2.0 | 7.2 | 26.7 | 25.0 | 15.0 | 10.0 | 25.0 | 2.0 | |

* Amount less than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which amounted to NIS 359 million as at December 31, 2017 (December 31, 2016 - NIS 323 million).

(2) Reclassified

**B. Additional Disclosure Regarding Investment Property**

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of discount rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A discount rate of 8% was used.
- The fair value of investment property assets as at December 31, 2017, amounts to NIS 20 million (December 31, 2016: NIS 20 million).
- Rental income from investment property amounted to approximately NIS 4 million in 2017, compared with approximately NIS 3 million and NIS 4 million in 2016 and in 2015, respectively.

# Note 16 – Other Assets

In NIS millions

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| **Deferred taxes receivable (see Note 9)** | 141 | 122 | 69 | 68 |
| **Surplus of advance income-tax payments over current provisions** | 36 | 39 | 30 | 39 |
| **Other debtors and debit balances:** | | | | |
| Loans to employees | 4 | 4 | 4 | 4 |
| Prepaid expenses | 60 | 45 | 59 | 44 |
| Institutions | 6 | 5 | - | - |
| Related companies | - | - | 4,894 | 4,301 |
| Factoring (including procurement factoring) (1) | 459 | 309 | - | - |
| Debtors in respect of gift certificates and prepaid cards | 21 | 33 | 6 | 14 |
| Others | 13 | 14 | 12 | 12 |
| **Total other debtors and debit balances** | 563 | 410 | 4,975 | 4,375 |
| **Total other assets** | **740** | **571** | **5,074** | **4,482** |

(1) As part of procurement factoring, the Company pays the customer after he presents a payment confirmation to his supplier. It should be noted that the Company has an insurance policy for most factoring transactions, at a rate of about 85%.

# Note 17 – Credit from Banking Corporations

| | Average annual interest rate | | | | | |
|---|---|---|---|---|---|---|
| | | | Consolidated | | The Company | |
| | On daily balance | On transactions in the last month | December 31 | | December 31 | |
| | | | 2017 | 2016 | 2017 | 2016 |
| | % | % | In NIS millions | | In NIS millions | |
| Credit in current loan accounts | 0.50 | 0.52 | 1,067 | 1,222 | 1,054 | 1,221 |
| Other loans | 0.76 | 0.88 | 950 | - | 950 | - |
| **Total** | | | **2,017** | **1,222** | **2,004** | **1,221** |

## Note 18 – Creditors in Respect of Credit-Card Activity

In NIS millions

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| Merchants (1)(2) | 11,776 | 11,820 | 12,828 | 12,776 |
| Liabilities in respect of deposits | 1 | 1 | 1 | 1 |
| International organization | 25 | 1 | 25 | 1 |
| Prepaid income | 46 | 27 | 34 | 17 |
| Benefit program for cardholders | 31 | 30 | 31 | 30 |
| Expenses payable | 99 | 91 | 99 | 91 |
| Others | 126 | 119 | 125 | 119 |
| **Total creditors in respect of credit-card activity** | **12,104** | **12,089** | **13,143** | **13,035** |

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 773 million as at December 31, 2017 (December 31, 2016 - NIS 716 million). In the consolidated report – offset by an existing balance with an investee subsidiary.

(2) Including the endorsement of rights by way of a sale in an amount of NIS 1,040 million from a third party to the parent company at December 31, 2017 (December 31, 2016 – NIS 767 million).

## Note 19 – Other Liabilities

In NIS millions

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| **Provision for deferred taxes (see Note 9)** | 8 | 7 | - | - |
| **Surplus of provision for employee rights over amount funded (see Note 20)** | 118 | * 99 | 117 | * 99 |
| **Other creditors and credit balances:** | | | | |
| Expenses payable in respect of salaries and related expenses | 114 | * 111 | 112 | * 110 |
| Suppliers of services and equipment | 39 | 40 | 38 | 39 |
| Accrued expenses | 76 | 89 | 73 | 86 |
| Institutions | 31 | 23 | 28 | 20 |
| Related companies | 495 | 535 | 521 | 541 |
| Allowance for credit losses in respect of off-balance-sheet credit facilities | 17 | 17 | 7 | 7 |
| Creditors in respect of factoring | 3 | 3 | - | - |
| Creditors in respect of gift certificates and prepaid cards | 150 | 143 | 136 | 125 |
| Travelers' checks in circulation, net | 7 | 8 | 7 | 8 |
| Others | 15 | 7 | 1 | 1 |
| **Total other creditors and credit balances** | 947 | 976 | 923 | 937 |
| **Total other liabilities** | **1,073** | **1,082** | **1,040** | **1,036** |

* Reclassified.

# Note 20 – Employee rights

In NIS millions

**A. Benefits at end of employment and post-employment [lines missing in numbers columns]**

| | December 31 | |
|---|---|---|
| | **2017** | **2016** |
| **Severance pay in respect of the termination of employee-employer relationships** | | |
| Amount of liability | 160 | 139 |
| Fair value of plan assets | 112 | 100 |
| **Surplus liability over plan assets**** | 48 | 39 |
| **Early retirement** | | |
| Amount of liability | (1) 63 | (2) 52 |
| Fair value of plan assets | - | - |
| **Surplus liability over plan assets**** | 63 | 52 |
| **Grant for non-utilization of sick days** | | |
| Amount of liability | 4 | 6 |
| Fair value of plan assets | - | - |
| **Surplus liability over plan assets**** | 4 | 6 |
| **Other benefits at end of employment and post-employment** | | |
| Amount of liability | 2 | 2 |
| Fair value of plan assets | - | - |
| **Surplus liability over plan assets**** | **2** | **2** |
| **Seniority grant** | | |
| Amount of liability | 1 | *- |
| Fair value of plan assets | - | - |
| **Surplus liability over plan assets**** | 1 | ***-** |
| **Total** | **118** | **99** |

* Amount less than NIS 0.5 million.
** Included in “Other Liabilities”.

(1) The increase in the liability in respect of early retirement derives mainly from the preparations for the separation of the Company from Bank Hapoalim and the subsequent termination of the employment of the Bank's employees on loan in the short term. An exact calculation was made for the relevant group of employees. See details in Section I below.

(2) Reclassified.

## Note 20 – Employee rights (cont.)

In NIS millions

**B. Defined Benefit Pension Plan**
**1. Commitments and financing status**

**a. Change in commitment in respect of forecast benefit**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| **Net commitment in respect of forecast benefit at beginning of the year** | **139** | **60** | **199** | **107** | **47** | **154** |
| Service cost | 13 | (1) 20 | 33 | 15 | *- | 15 |
| Interest cost | 5 | 2 | 7 | 4 | 2 | 6 |
| Actuarial loss (profit) ** | 7 | (2) | 5 | 22 | 23 | 45 |
| Benefits paid | (4) | (11) | (15) | (9) | (12) | (21) |
| **Net commitment in respect of forecast benefit at end of the year** | **160** | **69** | **229** | **139** | **60** | **199** |
| **Net commitment in respect of cumulative benefit at end of the year*** | **137** | **69** | **206** | **121** | **60** | **181** |

* Included in "Other liabilities".
(1) See Note 1 on page 201.

# Note 20 – Employee rights (cont.)

In NIS millions

**B. Defined Benefit Pension Plan (cont.)**
1. Commitments and financing status (cont.)

b. Change in fair value of plan assets and the financing status of the plan

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| **Fair value of plan assets at beginning of the year** | 100 | - | 100 | 97 | - | 97 |
| Actual return on the plan assets | 6 | - | 6 | 1 | - | 1 |
| Deposits in the plan by the Company | 10 | - | 10 | 10 | - | 10 |
| Benefits paid | (4) | - | (4) | (8) | - | (8) |
| **Fair value of plan assets at end of the year** | 112 | - | 112 | 100 | - | 100 |
| **Financing status – net liabilities recognized at end of the year*** | **48** | **69** | **117** | **39** | **60** | **99** |

* Included in "Other liabilities".

# Note 20 – Employee rights (cont.)

In NIS millions

## B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

**c. Amounts recognized in the consolidated balance sheet**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Amounts recognized in "Other Liabilities" | 48 | 69 | 117 | 39 | 60 | 99 |
| **Net liabilities recognized at end of the year** | **48** | **69** | **117** | **39** | **60** | **99** |

## d. Amounts recognized in cumulative other comprehensive income (loss), before tax effect

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Actuarial loss (profit), net | 19 | 20 | 39 | 14 | 34 | 48 |
| **Closing balance in cumulative other comprehensive income (loss)** | **19** | **20** | **39** | **14** | **34** | **48** |

## Note 20 – Employee rights (cont.)

In NIS millions

### B. Defined Benefit Pension Plan (cont.)

1. Commitments and financing status (cont.)

**e. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Commitment in respect of forecast benefit | 160 | 69 | 229 | 139 | 60 | 199 |
| Commitment in respect of cumulative benefit | 137 | 69 | 206 | 121 | 60 | 181 |
| Fair value of plan assets | 112 | - | 112 | 100 | - | 100 |

**f. Plans in which the commitment in respect of the forecast benefit exceeds the plan assets**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Commitment in respect of forecast benefit | 160 | 69 | 229 | 139 | 60 | 199 |
| Fair value of plan assets | 112 | - | 112 | 100 | - | 100 |

## Note 20 – Employee rights (cont.)

In NIS millions

**B. Defined Benefit Pension Plan (cont.)**
2. Expense for the year

**a. Components of net benefit cost recognized in profit and loss**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Service cost | 13 | 20 | 3 | 15 | *- | [illegible] | 10 | 2 | 12 |
| Interest cost | 5 | 2 | | 4 | 2 | | 4 | 1 | 5 |
| Forecast return on plan assets | (5) | - | ( | (4) | - | | (3) | - | (3) |
| **Subtraction of unrecognized amounts:** | | | | | | | | | |
| Net actuarial loss (profit) | 1 | 8 | | (-*) | 2 | | -* | 1 | 1 |
| Other, including loss from curtailment or settlement | - | 4 | | - | - | | - | - | - |
| **Net total benefit cost** | **14** | **34** | **4** | **15** | **4** | [illegible] | **11** | **4** | **15** |

* Amount less than NIS 0.5 million.

# Note 20 – Employee rights (cont.)

In NIS millions

## B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

**b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total | Company employees | Bank employees on loan | Total |
| Net actuarial loss (profit) for the period | 6 | (2) | | 24 | 23 | | (10) | 14 | 4 |
| Amortization of actuarial (loss) profit | (1) | (8) | ( | *- | (2) | | (*-) | (1) | (1) |
| Other, including loss from curtailment or settlement | - | (4) | ( | - | - | | - | - | - |
| **Total recognized in other comprehensive income** | 5 | (14) | ( | 24 | 21 | | (10) | 13 | 3 |
| Net total benefit cost | 14 | 34 | 4 | 15 | 4 | | 11 | 4 | 15 |
| **Total recognized in net benefit cost for the period and in other comprehensive income** | **19** | **20** | **3** | **39** | **25** | | **1** | **17** | **18** |

# Note 20 – Employee rights (cont.)

In NIS millions

**B. Defined Benefit Pension Plan (cont.)**

2. Expense for the period

**c. Estimate of amounts included in cumulative other comprehensive income and expected to be transferred from cumulative other comprehensive income to the statement of profit and loss as an expense (as income) in 2018, before tax effect**

| | Company employees | Bank employees on loan | Total |
|---|---|---|---|
| Net actuarial loss | 1 | 20 | 21 |
| **Total expected to be transferred from cumulative other comprehensive income** | **1** | **20** | **21** |

* Amount less than NIS 0.5 million.

3. Assumptions

**a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit**

1. Principal assumptions used to determine the commitment in respect of the benefit

| | As at December 31, 2017 | | As at December 31, 2016 | |
|---|---|---|---|---|
| | Company employees | Bank employees on loan | Company employees | Bank employees on loan |
| Discount rate | 1.58% | 0.63% | 2.02% | 1.31% |
| Rate of increase in CPI | 1.89% | 2.00% | 2.66% | 2.0% |
| Employee turnover rate | 1.7%-24.4% | -(1) | 1.7%-24.4% | -(1) |
| Rate of growth of remuneration | -0% (2)16.3% | 7.5%-0% | 0-2.6% | 0.5%-7.5% |

(1) Employee turnover rates for increased severance pay and early retirement were determined in accordance with Bank Hapoalim's experience taking age and gender of the employee into account and reflect a weighted turnover rate of approximately 7.5% a year.

(2) See a description of the new collective labor agreement signed in December 2017 in Section K. below.

# Note 20 – Employee rights (cont.)

In NIS millions

## B. Defined Benefit Pension Plan (cont.)

3. Assumptions (cont.)

**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 (cont.)**

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

| | For the year ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2017 | | December 31, 2016 | | December 31, 2015 | |
| | Company employees | Bank employees on loan | Company employees | Bank employees on loan | Company employees | Bank employees on loan |
| Discount rate | 2.02% | 1.31% | 2.13% | 1.60% | 1.99% | 1.54% |
| Long term forecast return on plan assets | 2.03% | - | 2.38% | - | 2.42% | - |
| Rate of growth of remuneration | 0%-16.3% | 0%-7.5% | 0-2.6% | 0.5%-7.5% | 0-2.6% | 0.5%-7.5% |

**b. Effect of a one percentage point change on the liability in respect of the forecast benefit, before tax effect**

| | For the period ended December 31, 2017 | | | |
|---|---|---|---|---|
| | One percentage point increase | One percentage point decrease | One percentage point increase | One percentage point decrease |
| | Company employees | Company employees | Bank employees on loan | Bank employees on loan |
| | NIS millions | | | |
| Discount rate | (14) | 19 | (2) | 2 |
| Rate of increase in CPI | (16) | 21 | (*-) | *- |
| Employee turnover rate | 2 | (3) | *- | (*-) |
| Rate of growth of remuneration | 21 | (16) | 1 | (1) |

Note: In the framework of the annual actuarial calculation, the actuary reexamined the relationship between the effect of the change in the Consumer Price Index and the effect of the change in the rate of remuneration. The conclusions of the study led to the determination of a real annual wage increase as a function of the forecast rate of inflation, in accordance with the collective labor agreement, and not as a fixed annual real wage increase.

# Note 20 – Employee rights (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 tax effect (cont.)**

| | For the period ended December 31, 2016 | | | |
|---|---|---|---|---|
| | One percentage point increase | One percentage point decrease | One percentage point increase | One percentage point decrease |
| | Company employees | Company employees | Bank employees on loan | Bank employees on loan |
| | NIS millions | | | |
| Discount rate | (14) | 18 | (2) | 3 |
| Rate of increase in CPI | (-*) | -* | (-*) | -* |
| Employee turnover rate | 2 | (2) | 1 | (1) |
| Rate of growth of remuneration | 18 | (13) | 2 | (1) |

* Amount less than NIS 0.5 million.

# Note 20 – Employee rights (cont.)

In NIS millions

## B. Defined Benefit Pension Plan (cont.)

4. Plan assets

**Fair value of plan assets by type of assets for Company employees**

| | % of total plan assets | |
|---|---|---|
| | **December 31, 2017** | **December 31, 2016** |
| Cash and deposits in banks | 6% | 4% |
| Shares | 16% | 20% |
| **Bonds:** | | |
| Government | 42% | 41% |
| Corporate | 23% | 28% |
| **Total** | 65% | 69% |
| Other | 13% | 7% |
| **Total** | **100%** | **100%** |

Amounts funded for severance pay of the employees are deposited in two central severance pay funds and with a large number of individual provident funds / managers' insurance policies according to the employees' choice. The allocation of plan assets reported is based on current reports in the media with regard to some of the funds that represent the bulk of the current funds for Company employees.

**b. Cash Flows**

a. Deposits for Company employees

| | **Forecast *** | **Actual deposits for the year ended December 31** | |
|---|---|---|---|
| | **2018*** | **2017** | **2016** |
| Deposits | 11 | 10 | 10 |

* Estimated deposits which the Company expects to pay to pension plans for a defined benefit during 2018.

## Note 20 – Employee rights (cont.)
In NIS millions

### B. Defined Benefit Pension Plan (cont.)
4. Plan assets

b. Future benefit payments that the Company is expected to pay

| | Company employees | Bank employees on loan | Total |
|---|---|---|---|
| 2018 | 20 | 69 | 89 |
| 2019 | 1 | - | 1 |
| 2020 | 2 | - | 2 |
| 2021 | 1 | - | 1 |
| 2022 | 2 | - | 2 |
| 2023-2027 | 7 | - | 7 |
| 2028 and thereafter | 32 | - | 32 |
| **Total** | **65** | **69** | **134** |

### C. Chairman of the Board of Directors

On July 2, 2017, Mr. Eyal Deshe was appointed as Executive Chairman of the Board of Directors, replacing Mr. Ronen Stein, who ceased to serve as Chairman of the Board of Directors of the Company at the end of June 2017.

Mr. Deshe will be entitled to a fixed remuneration in an annual amount of about NIS 1.5 million, in respect of a 50% position, linked to the Consumer Price Index for the month of April 2017.

### D. Personal Contract – the Company's Chief Executive Officer

1. Dr. Ron Weksler, holds office since February 2016 as the CEO of the Company, Europay (Eurocard) Israel Ltd. and Poalim Express Ltd. On February 25, 2016, following the approval of the Company's Salary and Remuneration Committee and the approval of Bank Hapoalim's Remuneration Committee, the Company's Board of Directors approved Dr. Weksler's term of office as CEO of the companies. In the framework of the aforesaid approvals, his remuneration was approved pursuant to a personal employment agreement (the aforesaid employment agreement was updated in January 2017). Until June 30, 2017, Dr. Weksler's term of office was granted to the companies as an employee on loan from Bank Hapoalim.

   During the year from February 2016 to June 30, 2017, the CEO was entitled to social benefits and related terms, 90 days advance notice, supplemental severance pay reaching a total rate of 250%, to fixed remuneration as paid to members of Management of Bank Hapoalim in accordance with Bank Hapoalim's remuneration plan (the fixed remuneration included a monthly salary bearing social contributions, a fixed monthly payment without social provisions and a fixed equity remuneration for which there are no social provisions), and variable remuneration in accordance with the relevant remuneration plan of the Company. In accordance with the remuneration plan, for each year, and subject to meeting threshold conditions, a target

# Note 20 – Employee rights (cont.)

## D. Personal Contract – the Company's Chief Executive Officer (Cont.)

bonus was determined for the CEO, at a certain percentage of the average bonus budget for members of Management of Bank Hapoalim, according to the remuneration plan of Bank Hapoalim (the target bonus).

2. On June 30, 2017, prior to the process of separation of Isracard from Bank Hapoalim, the employment relationship between the CEO and Bank Hapoalim ended. In the framework of the termination of his employment with the Bank, the Bank made the payments to the CEO to which he is entitled on the date of termination of employment relations with the Bank, including advance notice, severance pay, redemption of vacation, and payment of the balance of recreation pay. Isracard carried its share of the costs, determined on a relative basis, related to the termination of employment of the CEO with the Bank in respect of the period on loan. In addition, an employment agreement was signed between the CEO and the Company regarding his position as CEO of Isracard Ltd., Europay and Poalim Express Ltd.

3. The CEO's current employment agreement is for a fixed year commencing on July 1, 2017 and up to March 31, 2021. However, each of the parties is entitled to discontinue the engagement, at any time and for any reason whatsoever, by giving 90 days advance notice. In the event that the CEO's employment is terminated or if the engagement ends under the circumstances that are set forth in the Employment Agreement, the CEO will be entitled to the release of all the monies that accumulated to his benefit during his work by the Company and to receive a supplemental amount of the severance pay reaching a total rate of 100%.

   According to the current Employment Agreement and the Remuneration Policy of the Company, the CEO is entitled to annual variable remuneration and fixed remuneration as paid to members of Management in the Company (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions). Thus, for the period between July 1, 2017 and the end of 2017, the permanent remuneration of the CEO remains the same as the remuneration approved by Bank Hapoalim for the year 2017 in terms of its monetary value.

4. For the year 2018 onwards, the fixed remuneration of the CEO will be based on a monthly salary, which will be determined in accordance with the criteria and principles set forth in the Company's remuneration policy. In addition to the monthly salary during this year, the CEO will be entitled to an annual fixed remuneration in respect of his employment with the Company for that year in respect of which no social contributions will be made, which will be paid in cash in three annual installments, even if the CEO is not employed by the Company on the dates of payment. If in the future the Company changes its policy on the matter (e.g. if the Company's shares are listed for trading on the TASE), the organs of the Company may, on their sole discretion, replace the fixed compensation component without social contributions or its part of the component of equity remuneration.

   In addition to the fixed remuneration, the CEO will be entitled to variable remuneration in accordance with the principles of the Company's remuneration policy and in accordance with the remuneration plan, as may be from time to time and subject to any law. In accordance with the remuneration policy, the variable annual remuneration will be determined according to the fulfillment of personal goals and part of it will be calculated on the basis of a discretionary component as estimated by the Board of Directors.
   In addition, the CEO will be entitled to monthly salary and related terms, including pension provisions, a study fund, a vehicle, vacation days, sick leave, all the related conditions to which a member of Management at Bank Hapoalim (Rank 2) is entitled, and recreation pay. In addition, the CEO is obligated to the Company in respect of confidentiality, non-competition and prohibition of solicitation.

# Note 20 – Employee rights (cont.)

## E. Bonus Plan for the CEO of the Company

Within the context of the Company's CEO's Employment Agreement, Dr. Ron Weksler, the CEO is entitled to variable annual remuneration in accordance with the provisions of the Remuneration Policy and the Remuneration Plan, which were adopted in accordance with the directives issued by the Supervisor of Banks regarding remuneration policy in a banking corporation, including on the matter of payment arrangements and the spreading thereof. In accordance with the Plan, in respect of the year 2017, the annual bonus to the CEO will be determined pursuant to the "personal bonus budget", which will not exceed NIS 300,000 and will be calculated according to the rate of compliance with the target profit. After calculating the personal bonus budget, half will be multiplied by the score given to the manager according to compliance with personal performance targets (hereinafter: **"KPIs"**), as explained below, and half of the personal bonus budget will be granted at the discretion of the Board of Directors.

In respect of 2018 and thereafter, the annual bonus to the CEO will be calculated on the basis of a discretionary component of up to two monthly salaries of the CEO, according to the Board of Directors' assessment, and based on a performance-dependent component of up to 1.5 monthly salaries, that will be calculated in accordance with the rate of compliance with the target profit of the company, and will be coordinated, inter alia, according to a score that will be granted to the manager in accordance with compliance with the KPIs, as detailed in the Remuneration Plan.

## F. Bonuses

On July 23, 2017, the Board of Directors of the Company approved the new Remuneration Policy according to the recommendations of the Remuneration Committee of the Company (hereinafter: **the "Remuneration Policy"**) and Proper Conduct of Banking Business Directive No. 301A of the Banking Supervision Department (hereinafter: **"Directive 301A"**). The 2017 Remuneration Policy came into effect from January 1, 2017. The Remuneration Policy was formulated, taking into account the principles of the Remuneration Policy of the Banking Group, as notified to the Remuneration Committee and the Board of Directors of the Company. On January 21, 2018, the Board of Directors of the Company approved the "Isracard Ltd. and Isracard Group - Remuneration Plan (2017)". The Remuneration Plan is consistent with Remuneration Policy and is derived from and replaces previous Remuneration Plans in existence in the Company until that date. The Remuneration Plan applies to "key employees" in the Company only, as defined in Directive 301A.

The main points of the Remuneration Policy are as follows:

Setting a budget for bonuses to office holders who are not directors (hereinafter: **"members of Management"**)

Separate mechanisms for setting a bonus budgets and formats have been established for business functions and control and supervision functions.

The bonus budget for members of Management that are not a control function is based on the calculation of the Representative Bonus Budget, which will be calculated by multiplying the number of members of Management (other than the control function) by the number of monthly salaries to be determined according to the rate of compliance with the target profit of the Company alone, independent of the Bank. In accordance with the Remuneration Policy, the target profit will be calculated based on the profit of the Isracard Group before tax.

# Note 20 – Employee rights (cont.)

## F. Bonuses (cont.)

The annual bonus for each manager in a given year will be calculated according to the product of a personal score that will be granted to each manager each year, according to compliance with personal performance targets, a weighting factor and a bonus point value calculated on the basis of the Representative Bonus Budget and the total of personal scores of all members of Management that are not a control function.

The bonus to members of management in a supervisory and control function will be based on a personal bonus budget, calculated according to the number of monthly salaries according to the rate of compliance with the target profit, and in accordance with the personal score, but differently from the bonus of the other office holders in the Company, in light of the sensitivity of these roles from the aspect of the Company's risks. The personal score of each manager consists of a fixed component, that is a component based on the manager's compliance with the pre-determined KPI and a discretionary assessment component that will be awarded on the recommendation of the relevant authorities in the relevant organs of the Company, where there is a difference between the ratio of the different components of the personal score for Management members not in a control function and Management members who are in a control function. It should be noted that even for the purpose of calculating the bonus for members of management in control functions, the target profit will be calculated based on the profit of the Isracard Group before tax. Furthermore, it was determined that as long as there was no event of a change in control of the Company or as long as the Company's shares were not issued to the public, the annual bonus for each office holder will be adjusted to the Bank's performance, in accordance with the mechanism determined in the Remuneration Policy.

Ceilings and limits

The annual bonus shall not exceed the ceilings set in the Plan in the Remuneration Policy and the Remuneration Plan. The element of discretion in determining the annual bonus shall not exceed 3 salaries of the employee for the year. In circumstances where there was a substantial deviation from the capital adequacy ratio (as defined in the Bank's Remuneration Plan), in any year, then prior to the approval of bonuses for key employees, the Company will apply for a recommendation from the member of Management responsible for the Company on behalf of the Bank. The Remuneration Policy includes additional restrictions, inter alia, with respect to new provisions in accordance with Directive 301A regarding the reimbursements of annual bonus amounts paid to the office holder in a period of 5-7 years, in very exceptional circumstances, such as in circumstances where the office holder was involved in conduct that caused exceptional damage to the Company, including unlawful activity, breach of the duty of trust and more; clauses for reimbursement of bonus amounts in the event of an amendment to the financial statements, authority of the Board of Directors to reduce up to 50% of the annual bonus at its discretion under certain circumstances and more, in accordance with the Company's Remuneration Policy.

Payment mechanism – spreading of the annual bonus and the annual payment

(1) Pursuant to Directive 301A, the annual bonus shall be paid in full in cash, unless the variable remuneration of the manager in that year exceeds 40% of the fixed remuneration, and then it is required to spread the annual bonus. Insofar as the obligation to spread the annual bonus will apply, it will be paid as follows: 50% of the annual bonus will be paid in cash after the publication of the Company's annual

## Note 20 – Employee rights (cont.)

### F. Bonuses (cont.)

financial statements, and the remaining 50% of the annual bonus will be paid in three deferred tranches in cash, in accordance with the provisions set out in the Remuneration Policy.

Termination of Employment

In the event that a senior manager works only part of the bonus year, he will be entitled to a proportionate part of the annual bonus depending on the actual period in which he worked in the bonus year provided that he worked at least 90 days in the bonus year (or a shorter period of not less than 60 days, at the recommendation of the Chief Executive Officer). In the event of termination of employment in circumstances which do not qualify for severance pay or in circumstances of breach in the cooling off or non-competition provisions, if applicable, the manager will not be entitled to an annual bonus in respect of the year in which his employment ended, and his entitlement to tranches of the deferred annual bonus if there are any not yet paid at that date will lapse.

**Additional remuneration of employees of the Company subject to the terms of the remuneration policy**

As of 2017, all of the office holders of Isracard are employees of the Company and no longer include employees on loan from the Bank, and therefore are subject to the provisions of the Remuneration Policy, including maximum ceilings for the annual bonus, which apply to all office holders of the Company.

Employees employed directly by the Company who are not officeholders in the Company, are entitled to an annual bonus as decided by the Board of Directors of the Company. The decision of the Board of Directors is based on an existing plan made conditional on meeting targets set every year.

### G. The Remuneration of Office Holders in Financial Corporations Law

On March 28, 2016, the Knesset passed the Remuneration of Office Holders in Financial Corporations (Special Approval and Non-allowance for Tax Purposes for Exceptional Remuneration) Law – 2016 (hereinafter: "**The Law**"). The Law places restrictions on the scale of the remuneration for employees of financial corporations and stipulates, inter alia, that a financial corporation's commitment with a senior office holder or employee, which includes the provision of remuneration, the forecast expense in respect of which, as calculated at the time of the approval, in accordance with generally accepted accounting principles, is expected to exceed 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.

# Note 20 – Employee rights (cont.)

### G. The Remuneration of Office Holders in Financial Corporations Law (cont.)

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 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)

### H. The Company's Management Staff who are on Loan from the Bank

Commencing from July 1, 2017, the office holders of the **M**anagement of Isracard, who had previously been employees of the Bank on loan, were hired as employees of the Company in personal agreements with the Company. This **absorption** was made after the members of the **M**anagement as aforesaid terminated their employment with Bank Hapoalim and **the** account was **settled** with them by the Bank. The Company bore the costs of **settling** the account with the Company's **Management** members **on loan** in connection with the period of their **being on** loan to the Company by the Bank.

In addition, the CEO of the subsidiary, Tzameret, was absorbed in the same manner as an employee of Tzameret.

### I. Bank employees on loan

As part of the process of separation between Isracard and Bank Hapoalim derived by virtue of the provisions of the law, the parties were required to regulate the issue of termination of employment of employees of the Bank who are employed as **on loan to** Isracard from the Bank.

In November 2017, a conference was held for employees of the Bank on loan in which they were presented with the options available to them. Employees were presented with alternatives to terminate their employment as **being on loan to** Isracard:

1. Retirement tracks from the Bank, by employee's age.

2. Track to return to the Bank.

The intention of the parties is to terminate the employee loan plan during the first quarter of 2018, with a large part of the employees ending by April 1, 2018, and some on later dates during 2018, which will be agreed between the parties in the coming year.

In the retirement process, employees are paid sums of money in respect of retirement. Bank Hapoalim **applied** to the **C**ompany to demand that it bear the cost of existing and future retirement. The Company expressed its position, and in the discussions between the parties, the following outline is proposed, subject to the approval of the organs in each of the companies.

Principles of the outline:

1. Employees who retire from the Bank, whether they are absorbed by Isracard or retire fully (on both retirement tracks), the accounting for them will be in accordance with the actual retirement cost of the employees.

# Note 20 – Employee rights (cont.)

### I. Bank employees on loan (Cont.)

2. Employees who return to the Bank, the accounting for them will be according to the actuarial calculation existing for them as of December 31, 2017, by adjusting the employee's actual departure dates.
3. In the case of Section 1 and in the case of Section 2, the accounts will be paid according to the period of time that the employees worked at Isracard compared to the total period of their employment by the Bank, i.e. if the seniority of an employee is 20 years of which he worked for 10 years at Isracard, then the distribution will be in equal amounts.
4. Employees in which Isracard pays part of their salary - the accounting for them will be made in accordance with the cost that Human Resources at Isracard have agreed with the Bank at the time of their absorption and not at full cost.

The Company dealt with this outline as a “Plan curtailment”. In addition, the Company updated the period of service of the active on-loan employees, and the cost charged to the statement of profit and loss in the last quarter of 2017, due to the outline, in the Group, amounts to NIS 23 million (Including (gains) losses, net, which were reclassified to the statement of profit and loss).

### J. Efficiency Plan

In July 2017, the Company published an outline for a one-time limited voluntary retirement plan. The proposed plan was intended for employees of the Company in the collective labor agreement only, with a seniority of at least 7 years as at March 31, 2017.

The program included two tracks:

1. A discounted bonus track in lieu of an early pension that depends on the seniority of the employee and the period of time remaining to them until retirement age, with certain restrictions.

2. An increased compensation track of 275%.

The actual retirement took place during the months of November and December 2017. On the date of retirement, employer-employee relations ended in final and absolute agreement between the parties. The financial statements include the liability in respect of this efficiency plan.

### K. Agreement with the Employee Union

On December 20, 2017, the Company signed a new collective labor agreement in effect until December 31. 2023. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, the job description manual was updated. The job description manual includes job definitions and the relevant salaries.

# Note 20 – Employee rights (cont.)

### L. Vacations

The Company's employees and Bank 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 approximately NIS 3 million (December 31, 2016 – NIS 2 million).

# Note 21 – Share-Based Payment Transactions

1. The following are details of share-based payment arrangements that existed at the Company during the year ended December 31, 2017:

**A. Options and phantom units for employees of Bank Hapoalim on loan to the Company**

In March 2013, the Board of Directors of the Bank approved a program for the allocation of phantom units in 2013-2017, pursuant to which permanent employees of the Bank, including employees of the Bank on loan to the Company, will receive phantom units. These phantom units, which are exercised into cash, will be allocated at no cost, in five portions, in each of the years 2013-2017. The terms of the program are similar to those of the options granted to permanent employees of the Bank in previous years. The phantom units will be exercised automatically one year after a four-year vesting period.

**B. Remuneration plan for Bank Hapoalim employees on loan under a senior personal contract – bonuses and equity remuneration**

On June 22, 2014, the Bank adopted the 2014 plan.

**C.** In 2007, a memorandum of principles was signed by the Company and Mizrahi Bank Ltd. (hereinafter: "Mizrahi Bank"), which stated, among other matters, that Mizrahi Bank would continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years. In accordance with the memorandum of principles, the Company allocated shares to Mizrahi Bank, at a rate of 1.8% of the share capital of the Company, for the extension of the term of the existing agreements.

**2. Estimated fair value of equity instruments granted**

- The fair value of the options granted to employees of the Bank under the plan for 2010-2012 was measured on the date of their granting, using the Black & Scholes model.
- The fair value of the amount owed to the employees of the Company, as employees of the Company, including phantom units within the 2013-2017 plan, in respect of rights to the increase in the value of shares, settled in cash, is re-measured at every reporting period until the date of settlement.

# Note 21 – Share-Based Payment Transactions (cont.)

**3. Additional information regarding number of options – 2010 Plan:**

| | Consolidated and the Company | | |
|---|---|---|---|
| | Number of units for the year | | |
| | (2) 2017 | 2016 | 2015 |
| In circulation at beginning of year | - | 45,111 | 180,632 |
| Granted during the year | - | - | - |
| Forfeited during the year | - | (2,589) | (1,308) |
| Exercised during the year | - | (42,522) | (134,213) |
| **In circulation at end of year** | **-** | **-** | **45,111** |

1. The weighted average exercise price is NIS 1 for all of the options.
2. In the years 2015-2017, no options were granted under the Plan

**4. Additional information regarding number of options – 2014 Plan:**

| | Consolidated and the Company | | |
|---|---|---|---|
| | Number of units for the year | | |
| | 2017 | 2016 | 2015 |
| In circulation at beginning of year | 39,929 | 22,186 | - |
| Granted during the year | 38,730 | * 43,254 | 33,279 |
| Forfeited during the year | - | - | - |
| Exercised during the year | (38,421) | * (25,511) | (11,093) |
| Other (3) | (40,238) | - | - |
| **In circulation at end of year** | **-** | **39,929** | **22,186** |

* Reclassified

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during the year at the date of measurement was NIS 23.03 per option (in 2016 - NIS 19.37 per option, and in 2015 NIS 17.63 per option).
3. See also Note 20H above

## Note 21 – Share-Based Payment Transactions (cont.)

**5. Additional information regarding option warrant units for employees of Bank Hapoalim on loan to the Company:**

| | Consolidated and the Company | | |
|---|---|---|---|
| | Number of units for the year | | |
| | (4) 2017 | 2016 | 2015 |
| In circulation at beginning of year | - | 62,778 | 124,345 |
| Granted during the year | - | - | 4,111 |
| Forfeited during the year | - | - | (3,284) |
| Exercised during the year | - | (62,778) | (62,394) |
| **In circulation at end of year** | **-** | **-** | **62,778** |

1. The weighted average exercise price is NIS 1 for all of the options.
2. In the years 2016-2017, no options were granted under the Plan.

**6. Additional information regarding phantom units for employees of Bank Hapoalim on loan to the Company:**

| | Consolidated and the Company | | |
|---|---|---|---|
| | Number of units | | |
| | 2017 | 2016 | 2015 |
| In circulation at beginning of year | 203,725 | 189,838 | 121,868 |
| Granted during the year, net | 43,524 | 13,887 | 67,970 |
| Forfeited during the year | (49,524) | - | - |
| **In circulation at end of year** | 197,725 | 203,725 | 189,838 |

**7. Liabilities arising from share-based payment transactions settled in cash**

| | Consolidated and the Company | |
|---|---|---|
| | December 31 | |
| | 2017 | 2016 |
| Total liabilities arising from share-based payment transactions | 4 | 4 |
| Intrinsic value of liabilities where the counterparty's right to cash or other assets vested by the end of the year | 1 | 1 |

## Note 21 – Share-Based Payment Transactions (cont.)

**8. Effect of share-based payment transactions on profit and loss for the period**

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Expense arising from share-based payment plans | 4 | 6 | 6 |

## Note 22 – Equity, Capital Adequacy and Leverage

### A. Share capital

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | **Registered** | **Issued and paid-up** | **Registered** | **Issued and paid-up** |
| | In NIS | | | |
| Common shares of NIS 0.0001 | 100 | 73 | 100 | 73 |
| Special share of NIS 0.0001 (1) | - | - | - | - |
| | **100** | **73** | **100** | **73** |

(1) One registered, issued, and paid-up share.

**Share rights**

The special share grants its holder, in addition to the right to receive invitations to, participate in, and vote in the Company's general meetings, the following rights:

(A) In every general meeting of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

### B. Capital Adequacy and Leverage 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 of Measurement and Capital Adequacy, as updated, in order to conform to the provisions of Basel III (hereinafter: "**Basel III**").

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

# Note 22 – Equity, Capital Adequacy and Leverage (cont.)

## B. Capital Adequacy and Leverage Pursuant to the Directives of the Banking Supervision Department (cont.)

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

The implementation of the directive 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 that are not eligible for inclusion in regulatory capital are deducted from equity gradually at a rate of 20% per year, starting from January 1, 2014, until January 1, 2018. Capital instruments no longer eligible as regulatory capital will be recognized up to a ceiling of 80% on January 1, 2014, and each subsequent year this ceiling will be reduced by an additional 10% until January 1, 2022. As from January 1, 2017, the rate of the deductions from regulatory capital will stand at 80% and the ceiling for qualifying instruments in regulatory capital stands 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 the 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 total capital ratios were to be 12.5% for the entire banking sector and 13.5% for particularly significant banking corporations, by January 1, 2017. In May 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive Number 472 on the subject of "Acquirers and acquiring Charge Card Transactions", which contains a relief for a acquirer regarding the shareholders' equity requirement, which is to be calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 (Measurement and Capital Adequacy). However, despite what is stated in Section 40 of Proper conduct of Banking Business Directive 201, the Tier 1 shareholders' equity ratio may not be less than 8% and the overall capital ratio may not be less than

# Note 22 – Equity, Capital Adequacy and Leverage (cont.)

## B. Capital Adequacy and Leverage Pursuant to the Directives of the Banking Supervision Department (cont.)

11.5%. This directive has been effective since June 1, 2016. On February 26, 2017, the Company's Board of Directors approved the capital adequacy 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%.

### A. Capital components for the calculation of the capital ratio pursuant to Basel III (1)

In NIS millions

| | As at December 31 | |
|---|---|---|
| | **2017** | **2016** |
| **1. Capital for purposes of calculating capital ratio** | | |
| Tier 1 shareholders' equity and Tier 1 capital, after deductions | (3) 2,707 | 2,680 |
| Tier 2 capital | 145 | 137 |
| **Total overall capital** | **2,852** | **2,817** |
| **2. Weighted balances of risk assets** | | |
| Credit risk | 11,539 | 10,940 |
| Market risk | 41 | 19 |
| Operational risk | 2,071 | 1,963 |
| **Total weighted balances of risk assets** | **13,651** | **12,922** |
| **3. Ratio of capital to risk components (in percentages)** | | |
| Tier 1 shareholders' equity and Tier 1 capital to risk components | 19.8% | 20.7% |
| Overall capital ratio to risk components | 20.9% | 21.8% |
| Minimum Tier 1 shareholders' equity required by the Banking Supervision Department | 8.0% | 8.0% |
| **Minimum overall capital required by the Banking Supervision Department** | **11.5%** | **11.5%** |

See notes below.

# Note 22 – Equity, Capital Adequacy and Leverage (cont.)

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

### B. Effect of the transitional provisions on Tier 1 shareholders’ equity ratio

**Capital ratio to risk components**

In NIS millions

| | As at December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Tier 1 shareholders’ equity ratio to risk components before implementation of the effect of the transitional provisions in Directive 299 | 19.8% | 20.6% |
| Implementation of the impact of the transitional provisions in Directive 299 | (4) - | 0.1% |
| Tier 1 shareholders’ equity ratio to risk components after the effect of the transitional provisions in Directive 299 | 19.8% | 20.7% |

(1) Calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 on the subject of "Measurement and Capital Adequacy" and in accordance with Proper Conduct of Banking Business Directive 299 on the subject of “Regulatory Capital - Transitional Provisions. In addition, these figures include adjustments in respect of an efficiency program which were determined pursuant to a letter from the Supervisor dated January 12, 2016 on the subject of "Operational efficiency in the banking system in Israel", which are reflected in equal rates.

(2) In accordance with Proper Conduct of Banking Business Directive 472 "Acquirers and acquiring of Charge Card Transactions", which is effective as from June 1, 2016.

(3) In March 2017, the Company distributed a dividend to its shareholders in a total amount of NIS 230 million.

(4) Rate lower than 0.05%.

# Note 22 – Equity, Capital Adequacy and Leverage (cont.)

## B. Capital Adequacy Pursuant to the Directives of the Supervisor of Banks (cont.)

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

Below is the leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218

| | **As at December 31** | |
|---|---|---|
| | **2017** | **2016** |
| Tier 1 capital (in NIS millions) | 2,707 | 2,680 |
| Total exposures (in NIS millions) | 21,619 | 20,720 |
| Leverage ratio | 12.5% | 12.9% |
| Minimum leverage ratio required by the Banking Supervision Department | 5.0% | 5.0% |

# Note 23 – Contingent Liabilities and Special Agreements

## A. Off-Balance-Sheet Financial Instruments

In NIS millions

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| **Unutilized credit-card credit lines:** | | | | |
| Credit risk on the Company | 9,190 | 9,201 | 8,764 | 8,758 |
| Credit risk on banks | 19,684 | 19,031 | 19,684 | 19,031 |
| Credit risk on others | 307 | 322 | *- | *- |
| Allowance for credit losses | (10) | (10) | (7) | (6) |
| **Unutilized credit-card credit lines, net** | **29,171** | **28,544** | **28,441** | **27,783** |
| | | | | |
| **Guarantees and other liabilities:** | | | | |
| Exposure in respect of guaranteed checks | 41 | 54 | 41 | 54 |
| Exposure in respect of other guarantees | 28 | 28 | 28 | 28 |
| Liability in respect of factoring including procurement factoring | 131 | 131 | - | - |
| Exposure in respect of other liabilities | 188 | 185 | 9 | 8 |
| Exposure in respect of merchant credit lines | 125 | 144 | 89 | 77 |
| Allowance for credit losses | (7) | (7) | (1) | (1) |
| **Guarantees and other liabilities, net** | **506** | **535** | **166** | **166** |

* Amount less than NIS 0.5 million.

## B. Activity in Derivative Instruments – Volume and Maturity Dates (cont.)

1. On July 15, 2015, a subsidiary of the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 5 million nominal value, maturing in January 2017. The transaction was repaid in an orderly manner during the first quarter of 2017.

2. On May 10, 2016, the Company entered into an IRS type transaction with Bank Hapoalim B.M., in the amount of NIS 35 million nominal value, maturing in November 2017. The transaction was repaid in an orderly manner during the fourth quarter of 2017.

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# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives

### 1. Antitrust

1. 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). See also Section 1.2 under Regulatory Initiatives below. The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Antitrust Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

2. In January 2018, the Antitrust Authority issued to Isracard a draft of the terms of the local acquiring exemption. The draft includes, inter alia, reference to the credit card companies' obligation to attach to the agreement, in an equal and cost-free manner, any issuer, acquirer or any person acting on their behalf who wishes to join the agreement, to make available to them all the information required for them to join and act accordingly, to make adaptations, as necessary, which will allow a new player to join the agreement and act in accordance with its instructions. In addition, the draft includes a directive according to which the transfer of funds between an issuer and an acquirer in respect of transactions executed in a single payment shall take place not later than one day after the date of execution of the transaction.

### 2. Regulatory initiatives

1. In June 2015, the Banking Supervision Department published a number of directives, the objective of which was to bring about the implementation of recommendations and measures to extend the distribution and use of debit cards in Israel. Among the recommendations, inter alia, the Banking Supervision Department determined instructions for distributing debit cards to bank customers by the banks, rules for the immediate financial settlement of debit card transactions (including the crediting of the merchant for debit card transactions within 3 days from the time of the transmission of a transaction, as from April 1, 2016). In August 2015 an Order was published in the Official Gazette (whose validity was extended until December 31, 2018), in which the Governor of the Bank of Israel declared that the interchange fee for debit card transactions is under supervision and the rate was set at 0.3% of the transaction amount starting on April 1, 2016.

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

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

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

2. In May 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 472 regarding acquirers and acquiring of transactions in debit cards, following the provisions of the Banking Law (Licensing). The directive relates to financial entities whose main activity is acquiring transactions in debit cards and outlines the main rules for acquiring activity. The Directive eases some of the regulatory requirements imposed on credit card companies and acquirers, including easing capital requirements. In addition, the Directive enables the acquirer to lease terminals adapted to EMV technology to merchants, subject to the terms of the Directive. The Directive also relates to various aspects that apply to acquirers and which appeared earlier in Proper Conduct of Banking Business Directive No.470 and specifies the Proper Conduct of Banking Business Directives that apply to an acquirer. Directive 470 expanded the application of some of the protections that the Debit Card Law includes on credit card holders as well as on immediate debit card holders.

3. Together with the above regarding debit cards, in June 2015 the Banking Supervision Department issued a directive for implementation of the EMV security standard, both in issuance and in acquiring, which was embedded also in Proper Conduct of Banking Business Directive 470 and additional instructions. The directive and the instructions issued by the Banking Supervision Department, which were issued later, including amendments to Proper Conduct of Banking Business Directive 472 above, refer, inter alia, to timetables for issuing cards that support the EMV standard and for connecting terminals supporting the standard to the new debit card system, as well as the entry into force of a mechanism for shifting responsibility from the issuer to the acquirer. The application of the mechanism for shifting responsibility has been set for January 1, 2019.

4. In July 2016, The Strum Committee (the committee for examining increasing competitiveness in common banking and financial services), which was appointed by the Minister of Finance and the Governor of the Bank of Israel, its recommendations and following this, on January 31, 2017, the "Strum Law" was published in the Official Gazette. Under the Strum Law it was decided, among other things and subject to the conditions specified in the Law: to separate debit card companies from banks defined in the law as "a bank with a wide scope of activity" within 3 or 4 years from the date of publication of the Law; to grant authority to extend the obligation of separation to another bank; to set provisions regarding the acquisition of means of control in debit card companies; to prohibit the large banks from operating the issuance and acquiring of their own debit cards; to grant infant organization protections in a time-limited temporary provision for new players, including debit card companies; to allow debit card companies to use the information in their possession, inter alia, arising from the operating of the issuance; to prohibit certain banks from limiting or preventing an operating body as defined in the Law, to grant financial services, including granting credit to customers of the bank; to oblige all banks to present all debit cards and the terms of all the issuers who requested the bank to do so; prohibition of an acquirer to refuse to enter into an agreement with an aggregator, as defined in the Law, for unreasonable reasons, and to set rules regarding the engagement between them; the obligation of an acquirer to engage with a hosted acquirer, within its meaning in the Law, and in accordance with the conditions prescribed in the Law and the rules to be set (see Section 5 below).

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

On October 25, 2017, the Committee for the Examination of Competition and Reduction of Concentration in the Israeli Banking Market published the criteria for examining the state of competition in the credit market. On February 18, 2018, the Banking Supervision Department published a document entitled "Criteria and General Conditions for an Applicant to control and hold means of control in the acquirer and the credit card company" and a presentation with regulatory emphasis on those interested in purchasing the separated credit card companies. The presentation presents, among other things, information about the companies, as well as points of strength of the credit card companies and their main challenges.

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

6. In August 2016, the Supervision of Regulated Financial Services Supervision Law was published, according to which, for the first time, a framework was established that regulates the non-banking and non-institutional credit market in Israel, as well as expanding on all matters pertaining to the currency service providers sector. Those engaged in granting credit, as defined in the Law, will be subject to licensing requirements, with the exception of an exemption to certain entities by law, including auxiliary corporations and those who are "acquirers" under the Banking Law (Licensing). In addition, those engaged in the currency service providers sector, on the receipt of deposits and in services such as the issuance of prepaid cards, will be subject to a licensing requirement to provide services in a financial asset. With respect to the granting of credit, the Law came into force on June 1, 2017, and regarding services in a financial asset, the Law will enter into effect on June 1, 2018. On December 29, 2016, the Law was amended, and arrangements were made for activity of cooperative societies engaged in deposit and credit services, as well as the activity of issuing credit cards by non-banking corporations, auxiliary corporations and other entities that will receive an exemption according to the provisions of the law. In addition, in January 2017, the Law was amended and a chapter was added to regulate a service for the comparison of financial costs. In August 2017, an additional amendment to the Law, was published which came into force on February 1, 2018, under which operating a system of credit intermediation between individual lenders and borrowers (P2P System) is subject to licensing. As a rule, a banking corporation, an auxiliary corporation or an acquirer is not subject to a license to operate a credit mediation system. However, as part of the Amendment to the Law, banks and auxiliary corporations are prohibited from engaging in the operation of a credit intermediation system, controlling the operator of such a system, and holding means of control therein, and if the system operator was an individual - to have influence therein, for a period of three (3) years from the date the Law came into effect. Notwithstanding the aforesaid, a bank that received a banking license from the date of the commencement of the Law, as well as an auxiliary corporation that prior to the commencement of the Strum Law was controlled by a bank with a large volume of activity, may hold during the said year up to twenty percent (20%) of a certain type of means of control over the operator of a credit intermediation system, provided that this does not give them control over the system operator.

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

7. In August 2017, an amendment to the Non-Bank Loans Arrangement Law, 1993 was published. The amendment to the Law will come into force on November 9, 2018. According to the amendment to the law, the name of the law will be replaced with the Fair Credit Law, The amendment stipulates that, except for borrowers who are individuals, certain corporations that are to be determined will also be included under the definition of borrowers. The ceiling was fixed on the cost of credit that will apply to lenders in the economy (including banking corporations, auxiliary corporations and acquirers), and rules were set regarding the process of extending credit, provisions regarding interest on arrears and more.

8. In April 2016, the Credit Data Law, 2016 was published, which is expected to come into force in October 2018, according to which an arrangement was determined for sharing credit data, including the collection of credit data from the information sources prescribed by the Law, and their retention in a central database operated by the Bank of Israel and the provision of credit data to credit bureaus for processing and transferring them, inter alia, to credit providers, in accordance with the legislator's intention for the purpose of improving service in credit data in the economy in order to increase competition in the retail credit market, increase access to credit and reduce discrimination in this field. The Law determines issuers of debit cards and banking corporations (including auxiliary corporations) as a source of information that will be reported to the database that is established by virtue of the Law. In addition, the Law provides arrangements relating to the use of information in the database by credit providers and receipt of credit indications from the credit bureau that holds the information.

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

10. In March 2017, the Knesset plenum approved in its second and third readings an amendment to the Prohibition of Money Laundering Law, which was intended for improvement and efficiency of the fight against money laundering and the adaptation of existing legislation to international standards in this area, pursuant to the FATF agreement. In July 2017, the Knesset plenum approved in the second and third readings, an additional amendment to the Prohibition on Money Laundering Law, in which the definition of a "banking corporation" was extended to apply to an acquirer as well.

11. In February 2018, the Knesset's Constitution Committee approved the Prohibition on Money Laundering Order (Obligations of Identification, Reporting and Record-Keeping of Credit Service Providers for the Prevention of Money Laundering and the Financing of Terrorism). The Order regulates the obligations regarding the prohibition of money laundering and the financing of terror by

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

a body that is required to obtain a license for granting credit in accordance with Chapter C of the Control of Financial Services (Regulated Financial Services) Law, 2016, which is the body appointed in the Third Schedule to the Prohibition of Money Laundering Law, as well as discounting services providers and aggregators.

12. In July 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 367, "E-Banking", as well as an amendment to the directives supplementary to the said directive, including Proper Conduct of Banking Business Directive No. 420 regarding the sending of notices by means of communication (an additional amendment to the directive was published in January 2018). In addition, in August 2016, a circular was published on the subject of "Types of accounts and conditions in which the Customer’s signature would not be required on the Agreement". The Directive on "E-Banking" regulates banking corporations' activity in communication with their individual or small business customers and enables remote activity in a variety of banking services. Alongside the easements, the Directive sets principles for risk management in E-banking, both in the internal systems and processes of the banking corporation and in dealing with the customer. The directive came into effect in January 2017. In March 2017, an amendment to the directive was published. In January 2018, the Banking Supervision Department issued an amendment to the Directive, which includes, inter alia, regulation regarding sending a verbal SMS, as well as regulating the manner of transferring information regarding a balance in a current account from a banking corporation to a financial entity, pursuant to the provisions of the "Strum Law".

13. In August 2015, the Bank of Israel published an interim report on the "Chain of Executing Debit Card Transactions" which includes recommendations for increasing competition, efficiency and stability in the debit card market, which, according to the Bank of Israel, is expected to remove the existing barriers in the market and enable the entry of new players. In July 2016, the Bank of Israel published, as part of the Report’s conclusions, a document entitled "Principles and related steps for the development of a protocol for the execution of a debit card transaction and its use", which presents the principles of the protocol (technological specifications and interface structure, which is used to transmit information about a transaction on a debit card between parties in the chain of execution of the transaction) and recommendations for accompanying measures for the implementation of the principles, as well as the terms of access to the audited payments systems. In May 2017, the Bank of Israel published the components of the protocol.

14. In October 2016, the recommendations of the final report of the inter-ministerial committee to promote the use of means of payment were published. The principles in the document will form the basis for a memorandum law on the subject. The principles were based on the European Directive for Payment Services, PSD and PSD2, after making the adjustments required for the domestic market. One of the objectives of the Payment Services Law as defined in the Principles Document is to adapt consumer protections in the area of payment services and the setting of conditions of use and uniform consumer protections, as far as possible, in receiving payment services from the various service providers and through the various means of payment. However, each regulator will be authorized to set additional provisions for the bodies it oversees according to their characteristics. Financial market entities will be

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

able to choose the appropriate license according to their type of activity and its level of risk. In July 2017, as part of the committee's recommendations, a draft memorandum of the Payment Services Law, 2017 was published. The memorandum seeks to regulate the relationships between the provider of payment services to the payee, and between payment services to the beneficiary in the use of advanced means of payment, as well as setting general instructions regarding the implementation of payment instructions and warranty arrangements relating to them. As part of the memorandum, among other things, the Debit Cards Law, 1986 will be replaced by a more up to date law.

15. In July 2017, the Knesset plenum approved in its first reading the proposed Consumer Protection Law (Amendment No. 55), (Professional human voice response in a call routing system), according to which a trader providing a telephone service that includes an automated system for routing calls will enable the consumer immediately after choosing the language in which the service will be provided, to receive a human response on issues of handling malfunctions, the account and terminating the contract, while allocating a maximum waiting period. Violation of the directive will enable imposition of monetary sanctions on a trader who is a corporation. As part of the deliberations of the Economics Committee, the Supervisor was asked, subject to the enactment of the law, to act to regulate the matter also in banking corporations.

16. The Automated Banking Services Company Ltd. ("ABS") serves as a communications switch between the merchants and the acquirers. To the best of the Company's knowledge, in September 2017, the Bank of Israel determined that ABS would make available to all market users without consideration the communications protocol used for the execution of debit card transactions. In order to implement the transfer of the protocol, as aforesaid, the Antitrust Authority ordered the establishment of a voluntary association, to which ABS will transfer all of its rights in the communications protocol for no consideration. In accordance with the instructions of the Antitrust Authority, the association will allow any user of the protocol to join it at no cost, and that the voting rights in the association will be determined in such a way as to give appropriate representation to all users. Currently, discussions are being held by the Bank of Israel's Debit Card Committee regarding the regulations.

17. In July 2015, the Knesset plenum approved in its first reading a draft Law to Reduce the Use of Cash, 2015. This proposed law is divided into two main levels: the first level concerns the establishment of prohibitions and restrictions, such as the prohibition on giving or receiving cash payment as part of certain transactions over certain amounts. The second level deals with determining arrangements that ensure the access and availability of a means of alternative payment, which will be equivalent in terms of use and price to the means of payment whose use it is proposed to limit. The hearing was referred to the joint committee of the Constitution and Finance Committees for approval of the bill for second and third readings. In January 2018 the government approved a decision in which, among other things, the Bank of Israel issued a notice stating that it is examining a number of issues, including the possibility of obligating banking corporations to issue their customers a combined card that serves both as an immediate debit card and a credit card.

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## C. Antitrust and Regulatory Initiatives (cont.)

### 2. Regulatory initiatives (cont.)

18. In February 2018, the Constitution, Law and Justice Committee of the Knesset approved for the second and third reading the Law of Insolvency and Economic Rehabilitation, 2016, which deals with the process of rehabilitation of debtors, individuals and companies. According to the bill, among other things, mechanisms were set for the discharge of debts (including managing the process for debts up to NIS 150,000 in the framework of the Execution Office), and infrastructure for holding debt arrangements in companies.

    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.

## D. Legal Proceedings and Pending Claims

As at the date of the report, several legal claims have been filed against the Company and a consolidated company, arising in the normal course of their business, as well as class action lawsuits. The amount of additional exposure due to claims filed against the Company and a consolidated company, on various issues, whose possibility of realization is reasonably possible, was about NIS 2 million at December 31, 2017. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

1. In April 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action. The personal claim amount is NIS 145, and the amount of the class action was not stated. According to the plaintiff who is a merchant who had acquiring agreements with the respondents, the defendants acted unlawfully, in that the minimum fee they charged while they were bound concurrently in an agreement with a discounting firm, according to which they discounted through the discounting firm some of the transactions that they acquired by means of the defendants, without taking into account the amounts that were credited to the discounting firm. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting company. The parties have reached a compromise agreement, which received the Court's approval in March 2017.
2. In February 2016, the Company, Poalim Express and Europay received a lawsuit and a motion for its approval as a class action. This motion is a continuation of the Court's ruling on the matter of the lawsuit that is detailed in Section 1 above, in which a motion for a class action was approved on identical grounds vis-à-vis the customers of one company. The plaintiffs, who are merchants who are committed under acquiring agreements with the respondents, allege that the respondents acted unlawfully in that they collected a minimum commission from them while they have a parallel commitment with a discounting company under an agreement in accordance with which it discounted part of the transactions that were acquired 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 received the Court's approval in March 2017

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## D. Legal Proceedings and Pending Claims (Cont.)

3. In July 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action against the companies and another credit card company. The personal claim is approximately NIS 17, and the class action is estimated 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, a summation hearing was held and a judgment is awaited.

4. In February 2015, a lawsuit was filed against the Company and another company together with a petition for its approval as a class action. The applicant claims that the defendants did not give discounts to debit card holders purchases for petrol and purchases at convenience stores contrary to the discount promised to debit card holders associated with certain clubs. The class action is estimated by the plaintiff at over NIS 3 million. The Company's response has been filed. A settlement agreement reached by the parties, in which Isracard is not liable for any payment, was submitted to the Court in October 2017.

5. In June 2015, the Company, Europay and Poalim Express received a lawsuit and a motion for its approval as a class action. According to the petitioner, the respondents do not inform their customers that it is not possible to make transactions with some overseas merchants with a credit card that does not have a chip. The remedy sought is, inter alia, the immediate issuance of cards with a chip to all international card holders, compensation for customers who were unable to use their card, reimbursement of the difference between the cost of an international card and a local card, for 7 years retroactively. The personal claim is approximately NIS 250, and the damage to the group of plaintiffs was not assessed. In 2016, a number of preliminary hearings were held in the case. At the Court's recommendation, the parties have been conducting an arbitration process and an application for removal was filed in March 2017. In July 2017, a verdict was handed down by the court approving the petition for removal.

6. In September 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the petitioner, the manner in which the Company acted when charging a fee for obtaining information through contact with the company is in violation of the law. The personal damage is estimated by him at NIS 361.08 and the amount of the class action at about NIS 8.5 million. This is an application for approval in which an application for approval against the Company has been dismissed in light of the position of the Bank of Israel. After the Company applied to the other party and clarified the matter, he submitted his petition to amend the application for approval. The Court ruled that the petition may not be amended since the amendment to the amended motion was not attached to the petition, however it permitted the presentation of the documents. A response to the motion was filed. At the request of the court, a position was submitted by the Bank of Israel. The Company may submit a supplement to its response. The parties are negotiating to end the settlement process.

7. In November 2015, the Company received a lawsuit and a motion for its approval as a class action consolidating two class action lawsuits filed earlier in 2015 into a single lawsuit. According to the petitioners for approval, cancellation of the points / stars program and the insufficient period given the Company's customers to make arrangements to realize the accumulated points were made unlawfully. The remedy sought is reimbursement of the economic value of the rights in respect of the stars deleted. The personal damage is estimated by the plaintiffs at NIS 28, whereas the amount of the class action is approximately NIS 162 million. A response to the motion for approval was filed in May 2016. A mediation process that took place between the parties failed and the proceedings will resume.

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

**D. Legal Proceedings and Pending Claims (cont.)**

8. In March 2016, the Company and Europay (Eurocard) Israel Ltd. received a lawsuit and a motion for its approval as a class action. The petitioner requesting approval alleges that the manner of the conversion of foreign currencies into dollars is not in accordance with the rates of the international organizations and that as a result of this there is a breach of contract. The damage for the group of claimants is estimated at approximately NIS 23 million by the petitioner. The Company is to file a new response to the amended petition. In accordance with the court's proposal, the parties are considering a petition for additional arbitration.

9. In June 2016, a motion was filed for the approval of a lawsuit as a class action (a motion replacing a previous motion, which was filed in April 2014). The motion was filed against the three credit card companies. The petitioners allege that the three credit card companies are party to a restrictive arrangement that has not been lawfully approved, under which in debit and prepaid transactions, the said companies unlawfully hold on to monies that are due to the merchants and that they also calculate the commission that is collected from the merchants, on the basis of the interchange commission, as is customary in deferred regular transactions. Furthermore, it is also alleged that sections in the merchant agreement are discriminatory sections in a uniform contract. In December 2016, a response was filed to the motion for approval. The court was requested by the petitioners to postpone the hearing of the motion until after a decision is reached in a proceeding initiated by the Antri Trust Tribunal.

10. In November 2016, a motion for the approval of a lawsuit as a class action was filed. The petitioners allege that the Company does not provide advance notice to its customers who have received a benefit regarding the card fee for a year of more than three months and who will be charged that commission without the respondent having sent them written notification two weeks in advance, before the end of the period of the benefit, which is in contravention of the provisions of the law, where the grounds that are alleged are a breach of a legislated duty, the breach of an agreement and the banking rules and unlawful enrichment. The damage is estimated at an amount of NIS 65.8 million. The petitioner's motion for removal in February 2017 was accepted by the Court.

11. In April 2017 a petition to approve a claim as a class action was filed against the Company. According to the applicants, in transactions with an immediate debit card, the Company charges for a period of three days as a "charge for a limited time" in addition to the charge on the transaction. According to the petitioner, this is economic coercion, breach of statutory duty, a discriminating condition in a uniform contract, deception, damage to property and violation of autonomy. The alleged damage of the petitioner is NIS 60,000 and the damage to the group of plaintiffs is estimated at NIS 100 million. The Company submitted a response. The petitioner filed an application to withdraw his claim.

12. In April 2017, a petition was filed against the Company to approve a claim as a class action. According to the petitioner, Isracard sends its customers text messages with marketing content without explicit consent. According to the petitioner, this is a breach of statutory duty, negligence, unjust enrichment and a violation of autonomy. The alleged damage of the applicant is NIS 3,000, and for the group of plaintiffs is NIS 6 million. In addition, a declarative order was requested and a mandatory injunction instructing the Company to cease sending notices in a manner contrary to the

## Note 23 – Contingent Liabilities and Special Agreements (cont.)

### D. Legal Proceedings and Pending Claims (cont.)

provisions of the Law. In October 2017, a response was submitted to the petition for approval.

13. In May 2017 a petition to approve a claim as a class action was filed against the Company. The main argument that arises from the petition for approval is that in cases where the credit card was canceled during the monthly billing period, Isracard charges its customers a full card fee rather than a proportionate fee according to the date of canceling the card. The petitioner refrained from determining the extent of the damage to the group of plaintiffs and estimated his personal damage at NIS 13. In light of information that was passed on to the applicant, the applicant filed a petition to withdraw his claim, which was approved, and the claim was deleted.

14. In October 2017, a petition was filed against the Company for the approval of a claim as a class action. According to the petitioner, when the company is required to credit the customer's account for incorrect billing, the credit is performed according to the nominal charge value without adding interest and linkage. According to the petitioner, this conduct results in breach of contract, violation of statutory duty, negligence and unlawful enrichment. The personal damage claimed by the petitioner is NIS 0.14. The petitioner does not define the scope of the group of plaintiffs, but estimates that the total damage for the group of plaintiffs is at least NIS 2.5 million. In addition, within the framework of the petition for approval, a mandatory order was requested instructing the Company to provide all the required data for locating the members of the group of plaintiffs and determining the amount of the claim accordingly.

    In addition, a claim and petition to approve a claim as a class action are pending against the Company, as detailed below, which in the opinion of the Company, based on its legal counsel, it is not possible at this stage to estimate the chances of these legal proceedings, thus, no provision was made in respect thereof.

15. In December 2017, a petition was filed to approve a claim as a class action against the Company, Poalim Express and Bank Hapoalim. According to the petitioners, the amount of fees for the card for customers of Bank Hapoalim was unlawfully increased in violation of the agreement, lack of good faith and unjust enrichment. The plaintiffs estimate the size of the group of plaintiffs as 1.5 million customers, with the alleged personal damage being NIS 29.4, and the cumulative damage being NIS 180 million. In the framework of the petition, a refund of the aforesaid amount is requested, as well as a determination that a change in the discounts hierarchy is invalid.

### E. VAT Assessment

In December 2016, the Company received a VAT assessment (hereinafter: "**The Notification of Assessment**"), which to the best of the Company's knowledge is a continuation of an audit that was conducted across the sector, the main points of which deal with accounting transactions by cardholders with the international organizations in the years from 2012 to June 2016. The amount of the notification of assessment in respect of all of its components amounts to approximately NIS 70 million, exclusive of interest and linkage differences. The Company, based also on the opinion of its legal counsel, disputes the notification of assessment. On March 9, 2017, the Company filed an objection to the assessment and in

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## E. VAT Assessment (cont.)

April 2017 a first hearing took place on the objection with VAT representatives. In the event that the Company's position is not accepted, the Company will be exposed to similar demands in respect of the year after the giving of the notification of assessment. The Company, based on the opinion of its legal counsel, has recorded a provision in its financial statements where a provision is required and in respect of components where in its legal counsel's assessment, there is a "possible" risk of the realization of some of the sections of the assessment in the future, in accordance with generally accepted accounting principles.

## F. Indemnification of Directors

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

## G. Agreements with Subsidiaries and Sister Companies

Between the Company and each of the following companies: Poalim Express (sister company), Europay, Isracard Mimun, Tzameret Mimunim, Global Factoring and Isracard Nechasim, there are agreements for providing operating / management services by Isracard to each of the said companies (i.e. that all or part (as applicable) of the current activity of the said companies is based on the operation / management of Isracard (including its systems and employees), and, as applicable, the provision of credit lines for the purpose of their operations. In consideration of the aforementioned services, the said investee companies pay various operating / management fees derived from the nature of the operation / management services provided by Isracard to each of the investee companies and / or as a percentage determined from the volume of activity in debit cards operated by Isracard (as the case may be). In general, the term of the agreements is not limited in time but is subject to the fact that the said Group companies will be fully owned and controlled by Isracard, and subject to the parties' rights to cancel the engagements with customary prior notice. In addition, the Company undertook to indemnify each of Tzameret Mimunim, Global Factoring, Isracard Mimun and Isracard Nechasim in respect of all their liabilities. The indemnification of any of the aforesaid companies will remain in effect as long as any of the aforesaid companies are under the full control of the Company and the relevant requirements of the Banking Supervision Department (such as the Proper Conduct of Banking Business Directives regarding capital measurement and adequacy) are still in effect.

In July 2016, the arrangement between the Company and Europay was amended retroactively as from the beginning of 2016. Furthermore, in July 2016, the arrangement between the Company and Isracard Mimun was amended and became effective as from July 1. 2016.

# Note 23 – Contingent Liabilities and Special Agreements (cont.)

## H. Contractual Engagements with Various Banks in a Banking Card Issuance Arrangement

As at the date of signing of the report, there are various engagements and agreements (whether by virtue of a formal agreement or by virtue of the way the parties operate) between Isracard, Europay (hereinafter: “the Company") and Bank Hapoalim, Mizrahi Tefahot Bank Ltd. (hereinafter: "Mizrahi Tefahot Bank"), Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"), the First International Bank of Israel Ltd. (hereinafter: "the First International Bank"), Bank Massad Ltd. (hereinafter: "Bank Massad"), Bank Otsar Hahayal (hereinafter: "Bank Otsar Hahayal") and Union Bank of Israel Ltd. (hereinafter: "Union Bank") (together hereinafter: "the Banks Under Arrangement" and "the Arrangements with the Banks in the Arrangement", respectively), the substance of which is the regulation of the relations between the parties in connection with the issuance of cards using the Company's brands (in whole or in part as applicable) to the customers of the banks in the arrangement, including in connection with the accounting between the parties in connection with the issue, distribution and use of the cards and the responsibility of the parties to respect the charges and uses of the cards as aforesaid. Each of the banks in the arrangement was granted the authority to determine which of its customers would be deemed fit to join the credit-card arrangement of the Company and to recommend to the Company that they be included. Except in relation to certain situations and circumstances determined in the arrangement with each bank, the main ones of which relate to misuse of cards, warranty for use of the card after cancellation, warranty for use of the card after expiry, and more. Each bank in the arrangement is responsible for honoring in full the debits and payment of the amounts in which its customers will be charged in connection with their activities in the bank cards issued to them by the Company (in relation to the same bank); within the framework of the specific agreements between the Company and each of the banks mentioned in the arrangement, various monetary accounts were arranged in connection with the issuance, distribution and use of bank cards with respect to each bank, such that each party is entitled to certain payments or to participate in the other's expenses / income in connection with the arrangement, which differ between them both by the type of payments paid to each bank and the amounts / rates paid for each type of payment as stated and / or the type / brand of the card and / or the club association of the card and the like.

## I. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles.

The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| | In NIS millions | |
| First year | 31 | 30 |
| Second year | 17 | 14 |
| Third year | 13 | 11 |
| Fourth year | 10 | 11 |

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Fifth year | 9 | 9 |
| Over five years | * 71 | 10 |

* Including agreements recently signed for long-term periods.

## Note 23 – Contingent Liabilities and Special Agreements (cont.)

### J. Contractual Engagements with Customer Clubs

Within the framework of the activity of the customer clubs of the Company, the Company generally enters into agreements from time to time with various entities representing various customer groups, in arrangements for the issuance of credit cards to the members of those customer groups (hereinafter: "**The** "**Club Members**"), and in some cases the customer groups are set up and managed by the Company itself.

The cards issued to the Club Members usually and as applicable grant them discounts, (including discounts / exemption from card fees), credit under preferential conditions, membership gifts, special benefits and services in a variety of merchants that honor the club cards, in accordance with the conditions of each club. The entities taking part in the activity of the Company's customer clubs include, among others, consumer bodies and commercial corporations, employee organizations and professional organizations interested in issuing a club card to their customers and / or their employees by means of credit cards. The Group’s customer clubs can be classified into four main categories: (1) clubs for organizations and professions such as the “Hever” Club (for career soldiers and pensioners, security forces, members of the IDF Disabled Persons Association and their spouses), the "Hot" Club (for practical engineers, technicians, academics in the social sciences and the humanities, social workers and their spouses), the “Ashmoret” Club (members of the Teachers' Union, their spouses and teaching students) and clubs for employee organizations such as “Refael”, “Egged”, and “Israel Aircraft Industries”; (2) consumer clubs such as “Life Style” and customer clubs for retailers and chains such as “Rami Levi” and “Victory”; (3) clubs for youth, soldiers and students, such as “Isracard Youth” (for youth in the 16 to 22 age group), the "Yoter" Club (for soldiers in regular or reserve duty) and "Campus Card" for students; and (4) clubs of various banks in general in the framework of these agreements and according to the specific agreements between the Company and each club from time to time, the Company pays the clubs, usually, various payments in respect of club cards issued to club members by the company.

### K. Pledges

A subsidiary has pledged a floating charge on all its financial assets, property and rights to secure its obligations to banks. In addition, the subsidiary company pledged a fixed charge on its share capital and a pledge on monies, bills and other collateral.

# Note 24 – Operating Segments

## A. General

The Company issues, acquires, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands (hereinafter: "**MasterCard cards**"). In addition, the Company acquires transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are acquired by Europay. Issuance and acquiring of MasterCard cards are performed under a license from MasterCard Inc. ("MC"). The Company also issues, acquires, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa Inc.

**The Issuance Segment**

The Company issues and operates Isracard, MasterCard and Visa credit cards. In addition, the Company issues and operates a variety of other products, such as fuel cards, gift cards and more.

All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment.

Main income items generated for the Company from the Issuance segment: interchange fees, card fees, and fees from foreign currency transactions, as well as other fees as published in the Company's price list.

Interchange fees are fees paid by acquirers to issuers in respect of transactions executed in credit cards issued by the issuer and acquired by the acquirer.

Main expenses associated with the segment are: marketing, advertising, and management of customer clubs; various benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements, as well as allocating various operating expenses.

**The Acquiring Segment**

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

Main income items generated for the Company from the Acquiring segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment.

Main expenses associated with the segment are: recruitment and retention of merchants, joint advertising with merchants, Acquiring of sales slips, and production and delivery of credit statements, as well as allocating various expenses.

## Note 24 – Operating Segments (cont.)

**The Financing Segment**

The Financing Segment focuses on the provision of financial services and solutions through products tailored to customers' needs. The Company offers credit products to its customers, in response to their needs, taking into account the type of customer (private or corporate) and the customer's financial condition and repayment capability. All income and expenses related to the Company's interest-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to the Financing Segment.

**Other**

This segment includes all of the Company's other activities that do not belong to the Issuance, Acquiring, and/or Financing Segment, each of which does not constitute a reportable segment.

## Note 24 – Operating Segments – Consolidated (cont.)

In NIS millions

| | For the year ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| **Profit and loss information** | **Issuance Segment** | **Acquiring Segment** | **Financing Segment** | **Other(1)** | **Total** |
| **Income** | | | | | |
| Fees from external customers | 653 | 838 | 1 | - | 1,492 |
| Inter-segmental fees | 565 | (565) | - | - | - |
| **Total** | 1,218 | 273 | 1 | - | 1,492 |
| Net interest income (expenses) | (3) | (2) | 276 | - | 271 |
| Other income (expenses) | (19) | 13 | 6 | 42 | 42 |
| **Total income** | **1,196** | **284** | **283** | **42** | **1,805** |
| **Expenses** | | | | | |
| In respect of credit losses | 27 | 1 | 81 | - | 109 |
| Operating expenses | 358 | 180 | 41 | 1 | 580 |
| Sales and marketing expenses | 240 | 57 | 21 | - | 318 |
| General and administrative expenses | 39 | 28 | 12 | - | 79 |
| Payments to banks | 379 | (8) | - | - | 371 |
| **Total expenses** | 1,043 | 258 | 155 | 1 | 1,457 |
| **Profit before taxes** | 153 | 26 | 128 | 41 | 348 |
| Provision for taxes on profit | 37 | 6 | 41 | 13 | 97 |
| **Profit after taxes** | 116 | 20 | 87 | 28 | 251 |
| The Company's share in profits of associates after tax | - | - | - | 1 | 1 |
| **Net profit** | **116** | **20** | **87** | **29** | **252** |
| Return on equity (percent net profit out of average capital) | 7.6% | 10.4% | 10.0% | 74.1% | 9.6% |
| Average balance of assets | 12,103 | 967 | 4,305 | 89 | 17,464 |
| Of which: investments in associated companies | - | - | - | 3 | 3 |
| Average balance of liabilities | 896 | 11,937 | 1,414 | 580 | 14,827 |
| Average balance of risk assets | 7,821 | 987 | 4,463 | 200 | 13,472 |

* Amount less than NIS 0.5 million.

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

## Note 24 – Operating Segments – Consolidated (cont.)

In NIS millions

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| **Profit and loss information** | **Issuance Segment** | **Acquiring Segment** | **Financing Segment** | **Other(1)** | **Total** |
| **Income** | | | | | |
| Fees from external customers | 594 | 839 | -* | - | 1,433 |
| Inter-segmental fees | 555 | (555) | - | - | - |
| **Total** | **1,149** | **284** | **-*** | **-** | **1,433** |
| Net interest income | (1) | (1) | 235 | -* | 233 |
| Other income | (6) | 5 | 5 | 40 | 44 |
| **Total income** | **1,142** | **288** | **240** | **40** | **1,710** |
| **Expenses (income)** | | | | | |
| In respect of credit losses | 21 | 2 | 57 | -* | 80 |
| Operating expenses | 351 | 174 | 30 | 2 | 557 |
| Sales and marketing expenses | 198 | 52 | 15 | -* | 265 |
| General and administrative expenses | 38 | 24 | 8 | -* | 70 |
| Payments to banks | 396 | 3 | - | - | 399 |
| **Total expenses** | **1,004** | **255** | **110** | **2** | **1,371** |
| **Profit before taxes** | **138** | **33** | **130** | **38** | **339** |
| Provision for taxes on profit | 41 | 10 | 47 | 13 | 111 |
| **Profit after taxes** | **97** | **23** | **83** | **25** | **228** |
| The Company's share in profits of associates after tax | - | - | - | 1 | 1 |
| **Net profit** | **97** | **23** | **83** | **26** | **229** |
| Return on equity (percent net profit out of average capital) | 6.2 | 11.4 | 10.9 | 67.5 | 9.0 |
| Average balance of assets | 11,812 | 991 | 3,515 | 97 | 16,415 |
| Of which: investments in associated companies | - | - | - | 2 | 2 |
| Average balance of liabilities | 591 | 11,845 | 858 | 563 | 13,857 |
| Average balance of risk assets | 7,844 | 1,014 | 3,824 | 194 | 12,876 |

* Amount less than NIS 0.5 million.

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

# Note 24 – Operating Segments – Consolidated (cont.)

In NIS millions

| | For the year ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| **Profit and loss information** | **Issuance Segment** | **Acquiring Segment** | **Financing Segment** | **Other(1)** | **Total** |
| **Income** | | | | | |
| Fees from external customers | 516 | 843 | -* | - | 1,359 |
| Inter-segmental fees | 565 | (565) | - | - | - |
| **Total** | **1,081** | **278** | **-*** | **-** | **1,359** |
| Net interest income (expenses) | *- | (1) | 175 | -* | 174 |
| Other income | 11 | 1 | 2 | 43 | 57 |
| **Total income** | **1,092** | **278** | **177** | **43** | **1,590** |
| **Expenses (income)** | | | | | |
| In respect of credit losses | 6 | -* | 26 | -* | 32 |
| Operating expenses | 332 | 168 | 23 | 6 | 529 |
| Sales and marketing expenses | 177 | 47 | 11 | -* | 235 |
| General and administrative expenses | 34 | 21 | 6 | -* | 61 |
| Payments to banks | 369 | 3 | -* | - | 372 |
| **Total expenses** | **918** | **239** | **66** | **6** | **1,229** |
| **Profit before taxes** | **174** | **39** | **111** | **37** | **361** |
| Provision for taxes on profit | 45 | 13 | 38 | 12 | 108 |
| **Profit after taxes** | **129** | **26** | **73** | **25** | **253** |
| The Company's share in profits of associate companies after the effect of tax | - | - | - | (2) | (2) |
| **Net profit** | **129** | **26** | **73** | **23** | **251** |
| Return on equity (percent net profit out of average capital) | 8.6 | 12.9 | 12.6 | 67.0 | 10.8 |
| Average balance of assets | 11,460 | 1,083 | 2,667 | 120 | 15,330 |
| Of which: investments in associate companies | - | - | - | 3 | 3 |
| Average balance of liabilities | 343 | 11,705 | 432 | 529 | 13,009 |
| Average balance of risk assets | 7,687 | 1,032 | 2,973 | 207 | 11,899 |

* Amount less than NIS 0.5 million.

## Note 25 – Assets and Liabilities by Linkage Base – Consolidated

In NIS millions

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | Non-monetary items | Total |
| | Unlinked | CPI-linked | USD | Other | | Other |
| **Assets** | | | | | | |
| Cash on hand and deposits with banks | 31 | - | 41 | 32 | - | 104 |
| Debtors in respect of credit-card activity, net | 16,533 | 95 | 98 | 27 | - | 16,753 |
| Securities | - | - | - | - | 26 | 26 |
| Investments in associate companies | - | - | - | - | 5 | 5 |
| Buildings and equipment | - | - | - | - | 267 | 267 |
| Other assets | 670 | 5 | - | - | 65 | 740 |
| **Total assets** | **17,234** | **100** | **139** | **59** | **363** | **17,895** |
| **Liabilities** | | | | | | |
| Credit from banking corporations | 1,999 | - | 18 | - | - | 2,017 |
| Creditors in respect of credit-card activity | 11,836 | 67 | 137 | 18 | 46 | 12,104 |
| Other liabilities | 1,060 | - | 8 | 1 | 4 | 1,073 |
| **Total liabilities** | **14,895** | **67** | **163** | **19** | **50** | **15,194** |
| **Difference** | 2,339 | 33 | (24) | 40 | 313 | 2,701 |

(1) Including foreign-currency linked.

# Note 25 – Assets and Liabilities by Linkage Base – Consolidated

In NIS millions

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | Non-monetary items | Total |
| | Unlinked | CPI-linked | USD | Other | | Other |
| **Assets** | | | | | | |
| Cash on hand and deposits with banks | 59 | 4 | 43 | 3 | - | 109 |
| Debtors in respect of credit-card activity, net | 15,885 | 95 | 86 | 25 | - | 16,091 |
| Securities | - | - | - | - | 20 | 20 |
| Investments in associate companies | - | - | - | - | 3 | 3 |
| Buildings and equipment | - | - | - | - | 264 | 264 |
| Other assets | 517 | 4 | - | - | 50 | 571 |
| **Total assets** | **16,461** | **103** | **129** | **28** | **337** | **17,058** |
| **Liabilities** | | | | | | |
| Credit from banking corporations | 1,195 | - | 8 | 19 | - | 1,222 |
| Creditors in respect of credit-card activity | 11,876 | 66 | 131 | (11) | 27 | 12,089 |
| Other liabilities | 1,068 | - | 10 | 1 | 3 | 1,082 |
| **Total liabilities** | **14,139** | **66** | **149** | **9** | **30** | **14,393** |
| **Difference** | **2,322** | **37** | **(20)** | **19** | **307** | **2,665** |

(1) Including foreign-currency linked.

# Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity

In NIS millions

| | December 31, 2017 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Expected future contractual cash flows | | | | | | | | | | | | Balance-sheet balance (2) | |
| | **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)** |
| **Israeli currency (including linked to foreign currency)** | | | | | | | | | | | | | | |
| Assets | 8,860 | 3,084 | 3,419 | 1,182 | 605 | 282 | 93 | 6 | - | - | 17,531 | 523 | 17,728 | 5.09% |
| Liabilities | 9,449 | 2,320 | 2,201 | 301 | 524 | 4 | 18 | 16 | 29 | 18 | 14,880 | 124 | 15,044 | 0.68% |
| **Difference** | (589) | (764) | 1,218 | 881 | 81 | 278 | 75 | (10) | (29) | (18) | 2,651 | 399 | 2,684 | - |
| **Foreign currency (3)** | | | | | | | | | | | | | | |
| Assets | 152 | 8 | 7 | - | - | - | - | - | - | - | 167 | - | 167 | 1.45% |
| Liabilities | 128 | 8 | 3 | - | - | - | - | 4 | - | - | 143 | 7 | 150 | - |
| **Difference** | 24 | *- | 4 | - | - | - | - | (4) | - | - | 24 | (7) | 17 | - |
| Of which: difference in USD | (18) | 2 | 4 | - | - | - | - | (4) | - | - | (16) | (7) | (23) | - |
| **Total** | | | | | | | | | | | | | | |
| Assets** | 9,012 | 3,092 | 3,426 | 1,182 | 605 | 282 | 93 | 6 | - | - | 17,698 | 523 | 17,895 | 5.08% |
| Liabilities | 9,577 | 2,328 | 2,204 | 301 | 524 | 4 | 18 | 20 | 29 | 18 | 15,023 | 131 | 15,194 | 0.67% |
| **Difference** | (565) | 764 | 1,222 | 881 | 81 | 278 | 75 | (14) | (29) | (18) | 2,675 | 392 | 2,701 | - |
| **Of which: debtors in respect of credit-card activity | 8,770 | 2,821 | 3,307 | 1,181 | 605 | 278 | 93 | 6 | - | - | 17,061 | 18 | 16,753 | - |

* Amount less than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 25, "Assets and Liabilities by Linkage Base," including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 46 million (December 31, 2016 - NIS 25 million).

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

# Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

In NIS millions

| | December 31, 2016 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Expected future contractual cash flows | | | | | | | | | | | | Balance-sheet balance (2) | |
| | 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) |
| **Israeli currency (including linked to foreign currency)** | | | | | | | | | | | | | | |
| Assets | 8,647 | 2,961 | 3,213 | 1,077 | 486 | 257 | 103 | 9 | 1 | - | 16,754 | 460 | 16,925 | 4.95 |
| Liabilities | 9,121 | 2,365 | 2,128 | 289 | 76 | 7 | 19 | 22 | 17 | 13 | 14,057 | 149 | 14,260 | 0.66% |
| **Difference** | **(474)** | **596** | **1,085** | **788** | **410** | **250** | **84** | **(13)** | **(16)** | **(13)** | **2,697** | **311** | **2,665** | |
| **Foreign currency (3)** | | | | | | | | | | | | | | |
| Assets | 121 | 4 | 8 | - | - | - | - | - | - | - | 133 | - | 133 | 0.90% |
| Liabilities | 112 | 6 | 2 | - | - | - | - | 4 | - | - | 124 | 9 | 133 | - |
| **Difference** | **9** | **(2)** | **6** | **-** | **-** | **-** | **-** | **(4)** | **-** | **-** | **9** | **(9)** | **-*** | **-** |
| Of which: difference in USD | (11) | (1) | 6 | - | - | - | - | (4) | - | - | (10) | (8) | (19) | |
| **Total** | | | | | | | | | | | | | | |
| Assets** | 8,768 | 2,965 | 3,221 | 1,077 | 486 | 257 | 103 | 9 | 1 | - | 16,887 | 460 | 17,058 | 4.94% |
| Liabilities | 9,233 | 2,371 | 2,130 | 289 | 76 | 7 | 19 | 26 | 17 | 13 | 14,181 | 158 | 14,393 | 0.65% |
| **Difference** | **(465)** | **594** | **1,091** | **788** | **410** | **250** | **84** | **(17)** | **(16)** | **(13)** | **2,706** | **302** | **2,665** | |
| **Of which: debtors in respect of credit-card activity | 8,489 | 2,792 | 3,171 | 1,077 | 486 | 253 | 103 | 9 | 1 | - | 16,381 | 1 | 16,091 | |

* Amount less than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 25, "Assets and Liabilities by Linkage Base," including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 25 million (December 31, 2015 - NIS 11 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 27A – Balance and Fair Value Estimates of Financial Instruments

**1.Fair value of financial instruments**

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be obtained for the Company's financial instruments, because no active market exists in which they are traded, with the exception of some securities. The fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

**2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments**

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance-sheet date.

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of allowances for credit losses in respect of the debts.

Securities – Tradable securities: at market value in the primary market. Non-tradable securities: at cost, net of impairment.

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised credit close to the balance-sheet date.

# Note 27A – Balance and Fair Value Estimates of Financial Instruments (cont.)

In NIS millions

**3. Balances and Fair-Value Estimates of Financial Instruments:**

| | | December 31, 2017 | | | |
|---|---|---|---|---|---|
| | | Fair value (a) | | | |
| | Balance-sheet balance | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | |
| **Cash on hand and deposits with banks** | **104** | **91** | **13** | **-** | **104** |
| **Debtors in respect of credit-card activity, net** | **16,753** | **-** | **-** | **16,737** | **16,737** |
| **Securities (b)** | **26** | **17** | **-** | **9** | **26** |
| **Other financial assets** | **489** | **-** | **20** | **469** | **489** |
| Total financial assets | * 17,372 | 108 | 33 | 17,215 | 17,356 |
| **Financial liabilities:** | | | | | |
| **Credit from banking corporations** | **2,017** | **18** | **1,999** | **-** | **2,017** |
| **Creditors in respect of credit-card activity** | **12,058** | **-** | **-** | **12,034** | **12,034** |
| **Other financial liabilities** | **887** | **-** | **150** | **734** | **884** |
| Total financial liabilities | * 14,962 | 18 | 2,149 | 12,768 | 14,935 |

See notes below.

# Note 27A – Balance and Fair Value Estimates of Financial Instruments (cont.)

In NIS millions

**3. Balances and Fair-Value Estimates of Financial Instruments (cont.):**

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Fair value (a) | | | |
| | Balance-sheet balance | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | |
| **Cash on hand and deposits with banks** | **109** | **91** | **18** | **-** | **109** |
| **Debtors in respect of credit-card activity, net** | **16,091** | **-** | **-** | **16,075** | **16,075** |
| **Securities (b)** | **20** | **13** | **-** | **7** | **20** |
| **Other financial assets** | **354** | **-** | **33** | **321** | **354** |
| Total financial assets | *16,574 | 104 | 51 | 16,403 | 16,558 |
| **Financial liabilities:** | | | | | |
| **Credit from banking corporations** | **1,222** | **28** | **1,194** | **-** | **1,222** |
| **Creditors in respect of credit-card activity** | **12,062** | **-** | **-** | **12,039** | **12,039** |
| **Other financial liabilities** | **924** | **-** | **143** | **777** | **920** |
| Total financial liabilities | *14,208 | 28 | 1,337 | 12,816 | 14,181 |

* Of which: assets and liabilities in the amount of NIS 108 million and NIS 18 million, respectively (2016 – assets and liabilities in the amount of NIS 104 million and NIS 28 million, respectively), whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Notes 27B and 27C below.

** Reclassified.

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

(b) Includes shares for which no fair value is available, which are presented at cost, net of impairment, in the amount of NIS 9 million (2016 – NIS 7 million)

## Note 27B – Items Measured at Fair Value on a Recurring Basis [(1)] - Consolidated

In NIS millions

| | December 31, 2017 | | |
|---|---|---|---|
| | Fair-value measurements using: | | |
| | Prices quoted on an active market (Level 1) | Other significant observable inputs (Level 2) | Total fair value |
| Assets | | | |
| **Securities available for sale** | **17** | **-** | **17** |
| Total assets | 17 | - | 17 |
| **Liabilities** | | | |
| **Liabilities in respect of derivative instruments** | **-** | **-** | **-** |
| Total liabilities | - | - | - |

| | December 31, 2016 | | |
|---|---|---|---|
| | Fair-value measurements using: | | |
| | Prices quoted on an active market (Level 1) | Other significant observable inputs (Level 2) | Total fair value |
| Assets | | | |
| **Securities available for sale** | **13** | **-** | **13** |
| Total assets | 13 | - | 13 |
| **Liabilities** | | | |
| **Liabilities in respect of derivative instruments** | **-** | **-*** | **-*** |
| Total liabilities | - | -* | -* |

* Amount less than NIS 0.5 million.

(1) During the years ended on December 31, 2017 and 2016, there were no transfers from Level 2 to Level 1.

## Note 27C – Transfers between Levels 1 and 2 of the Fair Value Hierarchy

During the years 2017 and 2016, the Company had no items not measured at fair value on a recurring basis, except for recognition or a provision for impairment in a non-material amount in the third quarter of 2016.

# Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries

In NIS millions

## A. Balances

| | December 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | | | Related parties | | | |
| | Controlling shareholders | | Office holders | | Others | | Associate companies | | Others | |
| | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) |
| **Assets** | | | | | | | | | | |
| Cash on hand and deposits with banks | 85 | 115 | - | - | - | - | - | - | - | - |
| Debtors in respect of credit-card activity, net (1) | *- | *- | 1 | 1 | 252 | 267 | 17 | 19 | 1 | 1 |
| Securities | - | - | - | - | - | - | - | - | 7 | 7 |
| Investment in associate companies | - | - | - | - | - | - | 5 | 5 | - | - |
| Other assets | - | - | - | - | - | - | 1 | 1 | - | - |
| **Liabilities** | | | | | | | | | | |
| Credit from banking corporations | 1,517 | 1,743 | - | - | - | - | - | - | - | - |
| Creditors in respect of credit cards activity | 108 | 129 | - | - | - | - | - | - | ** 48 | ** 771 |
| Other liabilities | 9 | 11 | 12 | 17 | 495 | 568 | - | - | - | - |
| Shares (included in equity) | *- | *- | - | - | - | - | - | - | - | - |
| Credit risk in off-balance-sheet financial instruments | 11,139 | 11,155 | 8 | 8 | - | - | 18 | 18 | - | - |
| Guarantees given by banks | 5,597 | 5,767 | - | - | - | - | - | - | - | - |
| Guarantees given by the Company | 13 | 13 | - | - | - | - | - | - | - | - |

* Amount less than NIS 0.5 million.

(1) Transactions with related parties were all performed in the normal course of business, at terms similar to those of transactions with entities unrelated to the Company.

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

(3) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 14 million (highest balance during the year - NIS 24 million).

# Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In NIS millions

## A. Balances

| | December 31, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | | | Related parties | | | |
| | Controlling shareholders | | Office holders | | Others | | Associate companies | | Others | |
| | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) | Year-end balance | Highest balance during the year(2) |
| **Assets** | | | | | | | | | | |
| Cash on hand and deposits with banks | 98 | 98 | - | - | - | - | - | - | - | - |
| Debtors in respect of credit-card activity, net (1) | *- | *- | 1 | 2 | 234 | 254 | 19 | 20 | - | - |
| Securities | - | - | - | - | - | - | - | - | 7 | 7 |
| Investment in associate companies | - | - | - | - | - | - | 3 | 3 | - | - |
| Other assets | - | - | - | - | - | - | *- | 1 | - | - |
| **Liabilities** | | | | | | | | | | |
| Credit from banking corporations | 922 | 1,285 | - | - | - | - | - | - | - | - |
| Creditors in respect of credit cards activity | 74 | 114 | - | - | - | - | - | - | 975 | 994 |
| Other liabilities | -* | 7 | 17 | 17 | 535 | 535 | - | - | - | - |
| Shares (included in equity) | -* | -* | - | - | - | - | - | - | - | - |
| Credit risk in off-balance-sheet financial instruments | 10,441 | 17,688 | 8 | 9 | - | - | 16 | 42 | - | - |
| Guarantees given by banks | 5,442 | 5,910 | - | - | - | - | - | - | - | - |
| Guarantees given by the Company | 13 | 13 | - | - | - | - | - | - | - | - |

* Amount less than NIS 0.5 million.

(1) Transactions with related parties were all performed in the normal course of business, at terms similar to those of transactions with entities unrelated to the Company.

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

(3) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 19 million (highest balance during the year - NIS 34 million).

# Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In NIS millions

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

| | For the year ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Interested parties | | | Related parties | |
| | Controlling shareholders | Office holders | Others | Associate companies | Others |
| Income from credit-card transactions | 6 | - | - | - | 14 |
| Net interest (expenses) income | (15) | - | (*-) | (1) 1 | - |
| Other income | 4 | - | 29 | - | - |
| Operating expenses | (10) | - | - | - | - |
| Sales and marketing expenses | - | - | - | (23) | - |
| General and administrative expenses | (2) - | (20) | - | - | - |
| Payments to banks | (220) | - | - | - | - |
| **Total** | **(235)** | **(20)** | **29** | **(22)** | **14** |

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Interested parties | | | Related parties | |
| | Controlling shareholders (4) | Office holders | Others(1) | Associate companies | Others(1) |
| Income from credit-card transactions | - | | - | - | 106 |
| Net interest (expenses) income | (6) | - | - | (2) 1 | - |
| Other income | 3 | - | 27 | - | - |
| Operating expenses | (8) | - | - | - | - |
| Sales and marketing expenses | - | - | - | (22) | - |
| General and administrative expenses | (3) - | (22) | - | - | - |
| Payments to banks | (241) | - | - | - | - |
| **Total** | **(252)** | **(22)** | **27** | **(21)** | **106** |

| | For the year ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Interested parties | | | Related parties | |
| | Controlling shareholders | Office holders | Others(1) | Associate companies | Others(1) |
| Income from credit-card transactions | -* | -* | - | - | 93 |
| Net interest (expenses) income | (4) | - | - | (2)1 | - |
| Other income | 3 | - | 23 | - | - |
| Operating expenses | (8) | - | - | - | - |
| Sales and marketing expenses | - | - | - | (21) | - |
| General and administrative expenses | (3) - | (19) | - | - | - |
| Payments to banks | (225) | - | - | - | - |
| **Total** | **(234)** | **(19)** | **23** | **(20)** | **93** |

* Amount less than NIS 0.5 million.

(1) In respect of credit to merchants.

# Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In NIS millions

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

(2) In addition, in 2017, 2016 and 2015, expenses in respect of current account settlement for professional services, in the amounts of NIS 6 million, NIS 6 million and NIS 5 million, respectively.
(3) Exclusive of a payment in respect of the part of the consideration received in Bank Hapoalim from the sale of Visa.

## C. Benefits for Interested Parties

| | For the year ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Controlling shareholders | | Office holders | |
| | Total benefits | Number of benefit recipients | Total benefits(1) | Number of benefit recipients |
| Interested party employed by the corporation or on its behalf | - | - | (1) 18 | 15 |
| Director not employed by the corporation or on its behalf | - | - | 2 | 7 |

(1) Of which: short-term employee rights - NIS 15 million; less than NIS 0.5 million; severance benefits - NIS 3 million.

| | For the year ended December 31, 2016 | | | |
|---|---|---|---|---|
| | Controlling shareholders | | Office holders | |
| | Total benefits | Number of benefit recipients | Total benefits(1) | Number of benefit recipients |
| Interested party employed by the corporation or on its behalf | - | - | (1) 20 | 17 |
| Director not employed by the corporation or on its behalf | - | - | 2 | 7 |

(1) Of which: short-term employee rights - NIS 15 million; post-employment benefits - NIS 2 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 3 million; and share-based payment – less than NIS 0.5 million.

| | For the year ended December 31, 2015 | | | |
|---|---|---|---|---|
| | Controlling shareholders | | Office holders | |
| | Total benefits | Number of benefit recipients | Total benefits(1) | Number of benefit recipients |
| Interested party employed by the corporation or on its behalf | - | - | (1) 18 | 12 |
| Director not employed by the corporation or on its behalf | - | - | 1 | 8 |

(1) Of which: short-term employee rights - NIS 12 million; post-employment benefits - NIS 1 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 2 million; and share-based payment - NIS 1 million.

# Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

**C. Benefits for Interested Parties (Cont.)**

In addition, in 2017, the Company had salary and related expenses in the amount of approximately NIS 61 million (NIS 50 million and NIS 51 million in the years ended December 31, 2016 and December 31, 2015, respectively) in respect of employees on loan from Bank Hapoalim (2017 - 70 employees, 2016 - 86 employees, and 2015 - 102 employees).

**D. Information Regarding Transactions and Balances with Related Parties and Interested Parties**

- See Notes 20-21 above – Employee rights and Share-Based Payment.
- See Note 23 above – Contingent Liabilities and Special Agreements.
- In December 2016 the controlling shareholder decided to award a bonus to the Company's employees in respect of the consideration that was received by the controlling shareholder from the sale of the Visa shares.
- Commencing from July 1, 2017, the office holders who were members of Management of Isracard, who had previously been employees of the Bank on loan, were absorbed as employees of the Company. As part of the preparations for separation, the Company has settled the liability for early retirement related to these employees in the plan of the Bank's employees on loan. See also Note 20.I. above.

Isracard Ltd. and its Consolidated Companies

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

For the year ended December 31, 2017

ISRACARD

# List of Tables

## The Board of Directors and Management

During 2017, the Board of Directors of the Company continued to outline the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

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

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

Further to a notice published by the Bank of Israel regarding steps to ensure the capacity of the competition of the 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: 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 of determining 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 Board of Directors includes the Audit Committee, the Credit Committee, the Remuneration Committee and the Risk Management Committee. The Board of Directors and the committees hold detailed discussions of the various aspects of the Company's activity, as necessary.

In 2017, 24 meetings of the plenum of the Board of Directors and 48 meetings of the committees of the Board of Directors were held.

## Directors with financial and accounting expertise

Pursuant to the regulations of the Banking Supervision Department in the Public Reporting Directives, the Company is obliged to give details of the minimum number of directors with "financial and accounting expertise", which has been determined by it which is appropriate for the Board of Directors and in the Audit Committee. In order to adapt the minimum number of directors required for the current composition of the Board of Directors, the Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors will be three directors.

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is nine directors. The number of directors who have financial and accounting expertise, according to their education, skills and experience, in the Audit Committee is two directors. (As of the balance sheet date, December 31, 2017, there were nine directors and two directors, respectively.)

## Members of the Board of the Company

**Eyal Deshe** Serves as Chairman of the Board of Directors of the Company from July 2, 2017.

Serves as director and Chairman of the Board of Directors in Poalim Express and Europay since July 2, 2017

Serves as Chairman of the Board of Directors in Tevel Advance Technology Ltd. from November 1, 2017.

Serves as director in Mobileye Ltd. from March 1, 2013.

Serves as a member of the Board of Trustees of the Hebrew University in Jerusalem and as member of the Advisory Council for the MA Program in Financial Economics at the Interdisciplinary Center in Herzlia.

Served ar Senior Vice-President and Chief Financial Officer in Teva from June 1, 2008 to June 30, 2017.

Served as Executive Chief Executive Officer of Teva Pharmaceuticals Ltd. from October 2013 to February 2014.

Also served as director in Stratsys Ltd. and ECI Telecom Ltd.

B.A. Economics – Hebrew University in Jerusalem.

M.B.A., in Business Administrative (Finance) - Hebrew University in Jerusalem.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. E. Deshe, he is not a family member of another interested party of the corporation.

**Avi Idelson**

Serves as external director in the Company's Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since January 31, 2010,

Serves as member of the Audit Committee of the Board of Directors of the Company and since February 28, 2011, serves as Chairman of the Audit Committee. Serves as member of the Remuneration Committee of the Board of Directors of the Company and from November 25, 2013, serves as Chairman of the Remuneration Committee.

In addition, serves as member of the following committees of the Board of Directors of the Company: IT Committee, Credit Committee, and, since July 23 2015, as member of the Risk Management Committee.

Also serves as external director under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department on the boards of directors of the following companies: Europay, Poalim Express.

Serves as Chairman of the Audit Committee of the Board of Directors of Europay; and as Chairman of the Audit Committee of the Board of Directors of Poalim Express and as member of the Credit Committee of the Board of Directors of Poalim Express.

Senior advisor in human resources in the field of mergers and acquisitions and global systems and a director in companies.

Serves as director in Avi Idelson Management and Consulting Ltd.

Prior thereto, served as director on the Board of Directors of Mehadrin Ltd. and as member of the its Balance Sheet, Audit and Remuneration Committees, as Head of Human Resources and special consultant in the BSG Investments Group; as member of management in the Bank of Israel and Head of the Human Resources and Administration Department; as consultant to companies in the area of human resources, mergers and acquisitions and global systems, as VP of Human Resources at Amdocs, and served in a number of positions at Bank Hapoalim B.M.: Head of the Planning, Research, and Development Department; Head of the Human Resources Management Department; and various positions in the areas of training, operations, and human resources.

B.A. in Sociology and Education Administration, Tel Aviv University;

M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development.

Courses in banking and management at Bank Hapoalim.

Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University.

To the best of the knowledge of the Company and of Mr. A. Idelson, he is not a family member of another interested party of the corporation.

**Eldad Kahana**

Serves as member of the Board of Directors of the Company from August 8, 1979.

Member of the Audit Committee and the Remuneration Committee of the Board of Directors of the Company.

Also serves as director of the Board of Directors of Europay and as a member of its Audit Committee.

Until July 31, 2013, served as the Senior Assistant CEO and as the Head of the Central Legal Counsel Sub-Division in Bank Hapoalim B.M.

L.L.B., Hebrew University of Jerusalem, member of the Israel Bar Association.

To the best of the knowledge of the Company and of Mr. E. Kahana, he is not a family member of another interested party of the corporation.

**Itzhak Amram**

Serves as external director on the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since September 25, 2011.

Serves as member of the Audit Committee of the Board of Directors of the Company since April 23, 2012 and as member of the Risk Management Committee of the Board of Directors of the Company; serves as member of the IT Committee of the Company from December 20, 2017.

Also serves as an external director of the Board of Directors of Europay under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department, and as a member of the Audit Committee of the Board of Directors of Europay; and external director on the Board of Directors of Poalim Express (from December 16, 2013) under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department, and a member of the Audit Committee of the Board of Directors of Poalim Express.

LL.B.; member of the Israel Bar Association.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party of the corporation.

**Nitzana Edvi**

Serves as external director of the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department since May 29, 2012.

Also serves as a member of the following committees of the Board of Directors of the Company: the Audit Committee, the Credit Committee, and the Remuneration Committee.

Also serves as external director of Europay under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department and as member of the Audit Committee of the Board of Directors of Europay, and as external director on the Board of Directors of Poalim Express (from October 30, 2011) under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department and a member of the Audit and Credit Committee of the Board of Directors of Poalim Express.

Senior economist, lecturer on finance, and member of the teaching staff at the Open University, MBA program. Prior thereto, advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc.

M.B.A., School of Business Administration, Tel Aviv University.

B.A. Economics – Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Ms. N. Edvi, she is not a family member of another interested party of the corporation.

**Guy Kalif**

Serves as director on the Board of Directors of the Company from September 2, 2013.

Serves as Chairman of the Risk Management Committee of the Board of Directors of the Company from January 21, 2015.

Also serves on the Board of Directors of the following companies: Europay, Poalim Express, Poalim Mortgages Insurance Agency (2005) Ltd.

Serves as Manager of the Finance and Management Information Sub-Division in the Finance Division of Bank Hapoalim since February 14, 2016.

In his previous position, served as Head of the Comptroller Sub-Division of the Finance Division in Bank Hapoalim, and prior thereto, served as Manager of the Reporting and Financial Analysis Department in Bank Hapoalim.

M.B.A., specialized in finance and strategy, Tel Aviv University.

B.A. in Accounting and Economics, Tel Aviv University;

Certified Public Accountant

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. G. Kalif, he is not a family member of another interested party of the corporation.

**Mati Tal**

Member of the Board of Directors of the Company.

Serves as director in the Company since May 2014.

Serves as member of the Credit Committee of the Board of Directors of the Company from December 2014 and as Chairman of the committee since November 25, 2015, and as member of the Risk Management Committee from June 21, 2017.

Serves as director on the boards of directors of the following companies: Europay, Ashtrom Group Ltd. and member of the Audit Committee, Remuneration Committee and Balance Sheet Committee in the Ashtrom Group

Serves as Chairman of the Shema Association for rehabilitation and Treatment of hearing impaired children and Youth, member of of Public Council of Ometz, an association fighting government corruption.

In the last five years or during part thereof, was Logistics Sub-Division Manager in Bank Hapoalim, and prior thereto, was CEO of Bank Hapoalim in Switzerland, CEO in Bank Otsar Hahayal and Regional Manager in Bank Hapoalim.

B.A. in Economics with complementary studies in Business Administration and Computer Sciences in Hebrew University, Jerusalem.

Banking and administrative courses within Bank Hapoalim and a directorial course in the Israeli Management Center.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. M. Tal, he is not a family member of another interested party of the corporation.

**Zion Ezer**

Serves as external director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department from April 16, 2015.

Also serves as external director on the Board of Directors of Europay and Poalim Express under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department, and as member of the Credit Committee of the Board of Directors of Poalim Express.

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.

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|---|---|
| **Yoram Weissbrem** | Serves as director on the Board of Directors of the Company from January 20, 2016,<br><br>Serves as member of the Risk Management Committee of the Board of Directors from December 11, 2016.and as member of the IT Committee of the Board of Directors from May 17, 2017. Also serves as director on the Board of Directors of Europay.<br><br>Served as Secretary of Bank Hapoalim from April 4, 1995 to June 30, 2015.<br><br>Also serves as member of the Executive Committee of Mikra Moreshet Israel (R.A.) and as director in following companies: The Betty and Walter Artzt Foundation (Public Benefit Corporation), the Howard Gilman Israel Culture Foundation (Public Benefit Corporation) the YAR Foundation (Public Benefit Corporation).<br><br>Served as director on the board of directors of the following companies: Bitzur Ltd. Opaz Ltd., Poalim Nechasim (Shares) Ltd., Tarshish Holdings and Hapoalim Investments Ltd., Temura Financial Company Ltd., Teuda Financial Company Ltd., Agarot Issuance Company of Bank Hapoalim Ltd., Poalim Betvuna Ltd., Zohar HaShemesh Investment Ltd., but no longer serves thereon.<br><br>Also served as member of the Executive Committee in the following associations: Poalim in the Community (R.A.), the Klatchkin A.M.I. Fund for Performing Artists (R.A.), Tova and Eliahu Margalit Family Scholarships (R.A.) voluntarily liquidated, Founders' Fund on behalf of Y. Efter, Y. Barelli, S. Goren, A. Zabersky, Y. Horin, R. Shenkar (R.A.) voluntarily liquidated, but no longer serves thereon.<br><br>Director with accounting and financial expertise.<br><br>To the best of the knowledge of the Company and of Mr. Y. Weissbrem , he is not a family member of another interested party of the corporation. |
| **Boris (Baruch) Gasul** | Serves as director on the Board of Directors from April 6, 2017 and from May 17, 2017, as Chairman of the IT Committee of the Board of Directors of the Company.<br><br>Also serves as director on the Board of Directors of Europay and as director on the Board of Directors of Poalim Express.<br><br>Serves as manager of the Technological Planning Sub-Division in Bank Hapoalim.<br><br>Serves as director in Poalit Ltd.<br><br>M.B.A., specialized in Business Administration, Tel Aviv University.<br><br>B.A. Economics and Accounting – Tel Aviv University<br><br>Director with accounting and financial expertise.<br><br>To the best of the knowledge of the Company and of Mr. B. Gasul, he is not a family member of another interested party of the corporation. |

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| Amir Bachar | Serves as director in the Board of Directors of the Company from April 6, 2017. Also serves as director in the Board of Directors of Europay.<br>Serves as manager of the Consulting and Research Sub-Division in Bank Hapoalim.<br>LLB., Doctor in Law Studies - Hebrew University in Jerusalem.<br>M.A. Economics – Hebrew University in Jerusalem.<br>B.A. Law and Economics – Hebrew University in Jerusalem.<br>Member of the Israel Bar Association.<br>Lecturer in Banking Law – Hebrew University in Jerusalem.<br>Director with accounting and financial expertise.<br>To the best of the knowledge of the Company and of Mr. A Bachar, he is not a family member of another interested party of the corporation. |
| **Ronen Stein** | Served as Director and Chairman of the Board of the Company until July 2, 2017. |
| **Avraham Kochva** | Served as Director on the Board of Directors of the Company until March 30, 2017. |
| **Ronit Meiri-Harel** | Served as Director on the Board of Directors of the Company until March 30, 2017. |

## Members of Senior Management

**Ron Weksler**

Serves as CEO of the Company from February 2, 2016.

Also serves as CEO of the following credit card companies: Poalim Express and Europay.

Serves as Chairman of the boards of directors of the following companies: Tzameret Mimunim, Isracard (Nechasim) 1994 and Isracard Mimun.

Serves as Director in Global Factoring Ltd.

Serves as Director (voluntarily) in Young Business Leadership (Public Benefit Corporation)

Member of the management Committee of the Round-Up for Good Association (R.A.)

Member of the Friends of Tel Aviv University.

Served as member of management at Bank Hapoalim, Deputy CEO, Head of Strategy Division from November 2013 to February 2016.

Served as VP Commerce and Sales in the Company, in Europay and Poalim Express from October 1, 2011 to October 31, 2013.

From 2002 to October 2011, fulfilled various positions in Bank Hapoalim.

In the past, served as Director in the Company and in Europay.

Doctor of Philosophy – Doctor of Public Administration – Bar Ilan University.

MBA from Bar Ilan University.

B.A. in Law from Tel Aviv University

B.A. in Accounting from Tel Aviv University,

To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.

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| **Eli Zahav** | Member of management of the Company, VP Credit and Financing from August 15, 2016.<br><br>Also serves as member of management, VP Credit and Finance in Europay and Poalim Express.<br><br>Serves as Director on the boards of directors of the following companies: Tzameret Mimunim Ltd., The Israel Spirit (R.A.).<br><br>In his previous position, served as Manager of the Business Sub-Division in the Corporate Division in Bank Hapoalim B.M.<br><br>M.A. in Law – Bar Ilan University<br><br>B.A. in Economics and Political Science – Bar Ilan University<br><br>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 Kushlevitz-Ilan** | Member of the Management of the Company,. VP Risk Management and Security and Chief Risk Officer since February 2011.<br><br>Also serves as member of management, VP Risk Management and Security and Chief Risk Officer in Europay and Poalim Express.<br><br>M.B.A., Ben Gurion University.<br><br>B.Sc., Aeronautics and Space Engineering, Technion.<br><br>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 the Management of the Company,<br><br>VP Sales and Service in Europay and Poalim Express since August 2016.<br><br>Also serves as member of management, VP Sales and Service in Europay and Poalim Express.<br><br>Served as Deputy CEO of Service in Bituach Yashir and VP Service in Hertz.<br><br>B.A. in Social Science – Ramat Gan College.<br><br>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. |

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| **Maora Shalgi** | Member of the Management of the Company, VP Human Resources, since May 1, 2011.<br><br>Also serves as member of management, VP Human Resources in Europay and Poalim Express.<br><br>M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University<br><br>B.A. in Social Sciences and Liberal Arts, Open University.<br><br>To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation. |
| **Meirav Kalifar Peretz** | Member of the Management of the Company, VP Marketing from June 1, 2014.<br><br>Also serves as member of management, VP Marketing in Europay.<br><br>Since 1995, has fulfilled a number of positions in Bank Hapoalim B.M.<br><br>In her previous position, before the beginning of her term of office in Isracard, served as Manager of the Marketing and Strategic Planning Headquarters of the Retail Division in Bank Hapoalim B.M. (2013-2014).<br><br>Serves as director in the following companies: Life Style – Customer Loyalty Club Ltd.; Life Style Finance Ltd.<br><br>M.B.A., Tel Aviv University.<br><br>B.A. in Economics –Tel Aviv University.<br><br>To the best of the knowledge of the Company and of Ms. M. Kalifar Peretz, she is not a family member of another interested party of the corporation. |
| **Noa Naveh** | Member of management of the Company from July 1, 2017, VP and Chief Legal Counsel.<br><br>Also serves as member of management, Vice President and Chief Legal Counsel in Europay and Poalim Express.<br><br>Serves as Chief Legal Counsel in Tzameret Mimunim.<br><br>LL.B. – Bar Ilan University<br><br>To the best of the knowledge of the Company and of Ms. N. Navah, she is not a family member of another interested party of the corporation. |

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|---|---|
| **Nira Schmidt-Manor** | Member of management of the Company, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) from July 3, 2016.<br><br>Also serves as member of management, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) in Europay and Poalim Express.<br><br>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).<br><br>M.A. (with honors) – Employment Studies – Tel Aviv University.<br><br>B.A. (with honors) - Social Work School – Tel Aviv University<br><br>To the best of the knowledge of the Company and of Ms. N. Schmidt-Manor, she is not a family member of another interested party of the corporation. |
| **Ami Alpan** | Member of the Management of the Company since February 27, 2007.<br><br>Manager of Regulation and Special Projects.<br><br>Also serves as member of management. Manager of Regulation and Special Projects in Europay and Poalim Express.<br><br>Serves as director in the following companies: Store Alliance.com Ltd. and Tzameret Mimunim Ltd.<br><br>Served as director in the following companies: Life Style - Customer Loyalty Club Ltd., Life Style Financing Ltd. and I.D.D.S<br><br>M.B.A., Tel Aviv University<br><br>B.A. in Management and Economics, Tel Aviv University.<br><br>To the best of the knowledge of the Company and of Mr. A. Alpan, he is not a family member of another interested party in the corporation. |

**Ram Gev** Member of management of the Company, VP Finance and Administration from the end of March 2011.

Also serves as member of management, VP Finance in Europay and Poalim Express.

Serves as director in the following companies: Isracard (Nechasim) 1994 and Isracard Mimun.

In his previous position, served as VP Finance of Harel Finances.

Served as Deputy Manager of the Corporations Department in the Israel Securities Authority

M.B.A. (specialized in finance) (with honors), Hebrew University of Jerusalem.

B.A. in Accounting and Economics (with honors), Hebrew University of Jerusalem.

Certified Public Accountant

To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.

**Shai Vardi** Member of management, VP Technologies from June 6, 2016.

Also serves as member of management, VP Technologies in Europay and Poalim Express.

In his previous positions, served as Commander of the Software Unit in the Israel Police (Deputy Commissioner), VP Technologies of Discount Bank, VP Financial Solutions in Supercom, member of the Board of Directors and Chairman of the IT Committee in Ka'l.

M.B.A. – Tel Aviv University.

B.A. in Industrial Engineering and Management – Tel Aviv University.

To the best of the knowledge of the Company and of Mr. S. Vardi, he is not a family member of another interested party in the corporation.

# Internal Audit

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

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

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

Mr. Zeev Hayo, the Internal Audit of the Company has announced his retirement from his position which will come into effect from April 30, 2018 or the date of appointment and approval by the Bank of Israel of the new internal auditor of the Company, whichever is earlier. This is against a background of preparations for the Isracard Group's separation from the parent company, Bank Hapoalim (in which he serves as internal auditor), as a result of the Intensification of Competition and the Reduction of Concentration in the Banking Market in Israel Law, (Legislative Amendments), 2017.

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

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

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2017 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; a survey of operating risks; an updated organizational structure of the Company; a round of audits at the various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairman of the Board of Directors and the CEO of the Company.

The audit work plan also includes 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.

The Internal Audit work plan also addresses the activity of subsidiaries.

**Auditing resources** – Some three auditor positions were invested in the Company and its subsidiaries during 2017. 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 Chairman of the Board of Directors, the Chairman of the Audit Committee, and the CEO of the Company, and are also distributed to the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

**Summary of Internal Audit activity** – A summary of audit activities for 2016 was submitted to the Company in February 2017. A summary of audit activities for 2017 is expected to be submitted to the Audit Committee during the first quarter of 2018.

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

## Table 1-Auditors' Fees

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

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **(In NIS thousands)** | | | |
| For audit activities[(3)]: | | | | |
| Joint auditors | 1,914 | 1,914 | 1,789 | 1,789 |
| Total | 1,914 | 1,914 | 1,789 | 1,789 |
| For services connected to the audit | | | | |
| Joint auditors | 182 | 96 | 181 | 96 |
| For tax services[(4)]: | | | | |
| Joint auditors | 96 | 139 | 96 | 124 |
| For other services[(5)]: | | | | |
| Joint auditors | - | 80 | - | 80 |
| Total | 278 | 315 | 277 | 300 |
| **Total remuneration of auditors** | **2,192** | **2,229** | **2,063** | **2,089** |

(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.

# Table 2-Salary and Benefits of Office-holders[1]

## Table 2 – Salaries and Benefits of Office holders (1)

The following table lists the salaries, compensation, value of benefits, employer contributions, and provisions for the recipients of the highest salaries among the senior office holders of the Company, in thousands of NIS.

**Salaries of Senior Office-holders for the Year Ended December 31, 2017**

| | | | | | | | Loans granted under beneficial conditions | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Salary | Bonuses and other payments (7) | Share-based payment transactions (8) | Value of additional benefits | Severance pay, pensions, study funds, vacation, National Insurance, etc. | Total salary and related expenses | Balance at 31.12.17 | Average to maturity (in years) | Benefit granted during the year (10) | Loans granted under ordinary conditions (11) |
| Dr. Ron Weksler (9) | 1,766 | 274 | - | 250 | 328 | 2,618 | - | - | - | 12 |
| Eli Zahav (9) | 832 | 327 | 65 | 159 | 154 | 1,537 | - | - | - | 14 |
| Nira Schmidt-Manor | 792 | 298 | 60 | 137 | 164 | 1,451 | - | - | - | 116 |
| Dalit Geffen (5) | 798 | 346 | 131 | 52 | 124 | 1,451 | - | - | - | 15 |
| Ram Gev | 810 | 287 | - | 26 | 258 | 1,381 | - | - | - | 66 |
| Meirav Kalifar Peretz (9) | 799 | 272 | 42 | 54 | 156 | 1,323 | - | - | - | 50 |
| Eyal Deshe (2) | 603 | - | - | - | 122 | 725 | - | - | - | 54 |

**Salaries of Senior Office-holders for the Year Ended December 31, 2016**

| | | | | | | | Loans granted under beneficial conditions | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Salary | Bonuses and other payments (6) | Share-based payment transactions (7) | Value of additional benefits | Severance pay, pensions, study funds, vacation, National Insurance, etc. | Total salary and related expenses | Balance at 31.12.16 | Average to maturity (in years) | Benefit granted during the year (8) | Loans granted under ordinary conditions (9) |
| Dr. Ron Weksler (3) | 1,651 | 726 | 5 | 274 | 745 | 3,401* | - | - | - | 100 |
| Ronen Stein (4) | 100 | 81 | - | 21 | 10 | 212 | - | - | - | 13 |
| Meora Shalgi | 676 | 204 | 1 | 89 | 1,655 | 2,625 | - | - | - | 2 |
| Dalit Geffen (5) | 699 | 609 | 2 | 61 | 184 | 1,555 | - | - | - | 11 |
| Ron Cohen | 750 | 339 | 76 | 53 | 288 | 1,506 | - | - | - | 69 |
| Meirav Kalifar Peretz | 699 | 513 | 2 | 56 | 155 | 1,425 | - | - | | 40 |
| Eli Zahav (6) | 454 | 312 | - | 104 | 513 | 1,383 | - | - | - | 9 |
| Amir Kushlevitz | 578 | 307 | - | 140 | 313 | 1,338 | - | - | - | 9 |

1. This table presents the total cost of salaries in the Group in respect of office-holders appearing above.
2. On July 2, 2017, Mr. Eyal Deshe was appointed Executive Chairman of the Board of Directors, replacing Mr. Ronen Stein who ceased to serve as Chairman of the Board of Directors of the Company and the end of June 2017.
3. Dr. Ron Weksler serves as CEO of the Company from February 2016.
4. Mr. Ronen Stein served as Chief Executive Officer of the Company from February 2015 to January 2016. From January 2016, he served as Chairman of the Board of Directors and received his salary from Bank Hapoalim only until the end of June 2017.
5. Some of the above payments in respect of the salary of Ms. Dalit Geffen, who has served as CEO of a subsidiary ,since March 2016, are paid by Bank Hapoalim.
6. Mr. Eli Zahav serves as VP Credit and Financing from August 2016.
7. Bonuses, as described in Note 20E and 20F to the Financial Statements. In 2017, the amounts of the bonuses included in the table are based on an estimate; the final amounts will be determined at a later date and will be presented to the authorized organs for approval.
8. Share-based payment transactions, as described in Note 21(1)A and 21(1)B to the Financial Statements.
9. From July 1, 2017, office holders were recruited into the management of Isracard and the CEO of the subsidiary, Tzameret Mimunim, who were previously employees of the Bank on loan, as employees of the Company or a subsidiary on personal contracts. This recruitment was executed after the members of management as aforesaid terminated their employment with Bank Hapoalim and a settlement of account was made by the Bank. The Company bore the settlement expenses with the loaned members of the management in connection with the period of their loan to the Company by the Bank.

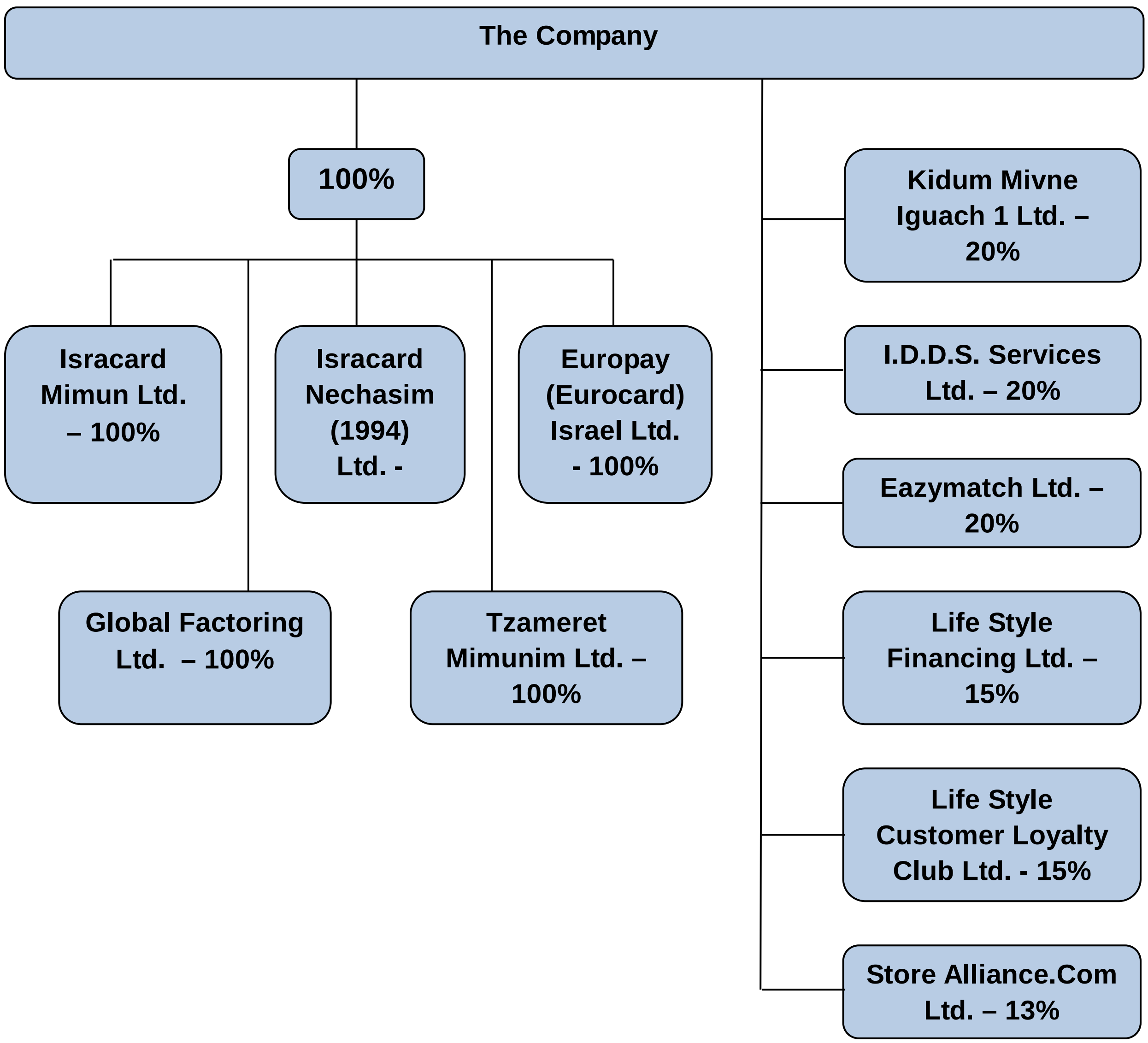
   Expenses in respect of their retirement were recorded as current, additional expenses, where applicable, were charged to the profit and loss statement. See also Note 20i to the Financial Statements.
10. Loans granted under terms similar to those offered to all employees of the Company; the amounts thereof were determined on the basis of uniform criteria.
11. The data represent credit-card balances during the ordinary course of business as at December 31.

* Bank Hapoalim is subject to the Remuneration to Office holders in Financial Corporations Law. The effect of the said law is in respect of the CEO of the Company, and given the results of the terms of his overall remuneration, his salary commencing October 12, 2016 was reduced, such that from this date and thereafter the cost of his salary is as provided by law.

Transactions with controlling shareholders and related parties, see Note 28 to the financial statements above.

## Further details

## Structure of Company holdings



**Controlling shareholder in the Company**

Isracard (hereinafter: "**the Company**") is a corporation which was incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: "**the Parent Company**" / "**Bank Hapoalim**"). The Company is an auxiliary corporation pursuant to the Banking Law (Licensing), 5741-1981.

As of the date of signing the report, the Company is held at a rate of 98.2% by Bank Hapoalim and at the rate of 1.8% by Mizrahi Bank.

The controlling shareholder of Bank Hapoalim is Ms. Shari Arison. To the best of the Company's knowledge, Ms. Arison's holdings in Bank Hapoalim are through Arison Holdings (1998) Ltd. ("**Arison Holdings**"), which, close to the date of signing the report, holds shares constituting 20.07% of share capital of Bank Hapoalim, which constitutes a "controllong core" in Bank Hapoalim (as this term is defined in the control permit granted by the Governor of the Bank of Israel).

To the best of the Company's knowledge, as at the date of signing the report, Eternity Holdings One Trust and Eternity Four-A Trust (in this section: "**the Trusts**") hold 30% and 70%, respectively, of the shares of Arison Holdings. Ms. Shari Arison is the principal beneficiary of the Trusts. The trustees of the Trusts are: The Northern Trust Company of Delaware and Fides VE LLC, together with The Northern Trust Company of Delaware, respectively. According to information provided to Bank Hapoalim, Ms. Shari Arison will have sole discretion to vote at the shareholders' meetings of Arison Holdings, by virtue of the power of attorney given to it by the trustees, respectively, in accordance with the conditions prescribed by the Bank of Israel, which the said trustees have confirmed that they are aware of and that they are willing to act accordingly. The power of attorney granted as aforesaid was given without the intention of canceling them at any stage; and if such revocation of the power of attorney occurs to any of the beneficiaries, they must immediately notify the Bank of Israel accordingly and no later than seven (7) days from the date of receipt of the notice of cancellation.

**Fixed assets**

As at the date of signing the report, most of the Company's fixed assets are information and computer systems (including software), buildings and real estate (including installations and leasehold improvements) and furniture and office equipment. The following are additional details regarding the Company's fixed assets:

**IT systems and computers**

The assets belonging to this category includes, mainly: computers, information systems and infrastructures (partly self-developed), communications equipment and peripheral equipment by the Company in its activities.

These systems include mainframe computers (including backup requirements), open systems, hardware and software which are used by the Company in their regular activity and comply with high standards of information security and cyber protection required for the Company's operations. In general, the Company's information and control systems are at the core of the Company's activity and are located in two independent central sites (a central site and secondary site), as well as an additional backup site used for emergencies.

**Buildings and real estate**

The company's headquarters are located in an office building on Hamasger Street in Tel Aviv. The building is owned by Isracard Nechasim and Natam. (Hereinafter: "**Natam**") (a third party not related to the Company) in equal and non-specific parts ("musha"), Isracard Nechasim and NTAM lease most of the property to the Company and the balance of the property to Bank Hapoalim. In addition, the Company rents additional office space from various third parties for its current and operational needs. For further details regarding the Company's fixed assets, see Note 15 to the Financial Statements above.

**Intangible assets**

The Company is the owner of the Isracard trademark and holds long-standing licenses from the MasterCard and Visa international organizations for the issuance and acquiring of Mastercard and Visa credit cards in Israel. It should be emphasized that these licenses constitute the principal basis for the Company's activity in the areas of issuance and acquiring, and accordingly, the Company's operations in these areas are materially dependent on the said licenses.

In addition, the Company's companies have rights in several registered trademarks relating to the credit cards that it issues, acquired and/or operates. Most of the trademarks in which the Company has rights relate to the type of credit card, credit card names, nature, prints and logo appearing on the credit card, company publications or documents used as payment and collection methods, etc.

In addition, the Company maintains databases in connection with its various areas of activity. Accordingly, the Company is subject to various laws, inter alia, the provisions of the Law for the Protection of Privacy, 1981 and the regulations enacted by virtue thereof in connection with those databases, their security, their proper management and their records. The privacy protection laws in Israel develop and change, and, at the same time, include archaic instructions that have not been updated for decades. The Company operates constantly and continuously in order to provide the necessary response to comply with the provisions of the law and the regulations by virtue thereof, to the courts' rulings, and with due regard to the directives of the Protection of Privacy Authority which are published periodically and the implementation of best practices for proper management of the information in the Company. The information is updated and stored in the Company's database according to its needs and legal requirements.

**Insurance**

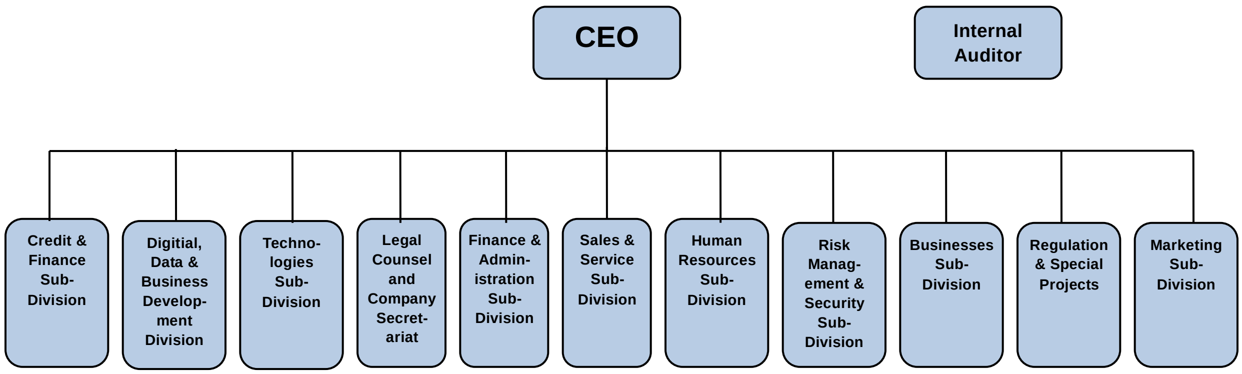
The Company is insured in various insurance policies, inter alia, for risks of electronic equipment, bank insurance, including several extensions to this insurance regarding the subject of cyber damage insurance (in accordance with the requirements of Proper Conduct of Banking Business Directive No. 352), employers' liability, extended fire and property. Based on, among other things, advice it has received, in the opinion of the Company's management, taking into account the risks faced by the Company and in accordance with customary practice and practice in similar businesses in Israel, as at the date of signing the report, the said insurance cover is adequate.

## Human Capital

**Organizational Structure**

The organizational structure of Isracard consists of eleven (11) functional units, each headed by an office holder reporting directly to the CEO of the Company. As a rule, the aforesaid units (as applicable) include divisions, subdivisions, and sections, according to the nature of their activity, which report to the head of the unit.

## The following is a chart of the organizational structure:




### Company Personnel

As of the date of signing the report, the Company's workforce consists of 1,169 positions. The following are details of the total number of positions: A position is defined as 100% position for employees on a monthly basis who are employed full-time or 180 monthly hours for employees according to hourly wages. The number of jobs also includes translation to positions of a number of hours of overtime, plus external manpower positions that are not Company employees, but provide work services that are required to regulate personnel in the framework of ongoing activities and assimilate projects, less employee posts whose salaries were capitalized to fixed assets. In the Company, at the date of signing the report:

(a) Employees in collective labor agreements. The number of positions of employees whose terms of employment are in accordance with the collective labor agreement of the Isracard Group is approximately 1,200 at the end of December, including overtime positions (most of the Company's employees).

(b) Employees in personal employment agreements. The number of positions of employees, whose terms of employment are according to personal agreements, including the CEO, members of management, department managers and the CEO of Tzameret Mimunim, is 56 positions.

(c) The Company also employs some 70 Bank Hapoalim employees who are loaned to the Company. For further details regarding these employees - see also Note 20 - Employee Rights, Section (l) and the description below.

### Collective labor agreements

Most of the Company's employees are employed under collective labor agreements and are represented by the Histadrut ("**the Workers' Committee**"), which is the representative workers' organization. Accordingly, in addition to the labor legislation and extension orders applicable to the entire economy, the employment conditions of the Company's employees incorporated in collective labor agreements are regulated by special collective labor agreements that are signed from time to time between the Company and the employees' organization, as follows:

Collective labor agreement for employees of Isracard and/or Europay - a special collective labor agreement from 2011 (as periodically extended and updated) (hereinafter: (collectively, "**the Collective labor agreement of Isracard**") applies to all employees of Isracard and/or Europay, with the exception of employees in the positions specified in the collective labor agreement of Isracard as employees who are excluded from the application of the collective labor agreement as aforesaid, including the Salary Controller, Legal Counsel, Compliance Officer, Risk Manager, Money Laundering Manager and / or employees in positions and/or in professions requiring education and/or professional experience in areas related to Isracard's operations and/or the management of its business. Labor relations with these employees were regulated in personal agreements.

The collective labor agreement of Isracard regulates working conditions and determines, inter alia, work procedures, a trial period, tenure, the manner in which employees are accepted and promoted, the transfer of employees from position to position, salary and social benefits (including salary increases), social contributions and deductions, basic rights and duties, handling disciplinary offenses, rules of conduct and discipline, dismissal proceedings, including layoffs, and a mechanism for resolving disputes.

In December 2017, a new collective labor agreement was signed with the New General Federation of Labor - the Ma'of Federation and the Isracard Group Employees Organization. The agreement was signed for a period of six years from January 1, 2018.

The agreement also includes reference to the maintenance of a quiet and proper working relationship with the workers' organization.

**The nature of personal employment agreements**

In general, the personal employment agreements of the relevant group of employees regulate the salary and conditions of employment, including position, scope of office, work hours, entitlement to social benefits (including recreation pay and vacation days and annual leave), pension contributions, study funds, payments in respect of vehicle maintenance (or a vehicle), meal arrangements, a commitment to maintain confidentiality during and after the employment period, and a commitment to non-competition and prohibition of solicitation. In addition, the employment agreements include rights at the termination of employment, including severance pay and early notice period.

## Table 3 – Data of the number of employee positions of the Company in terms of full-time positions

| | 2017 | 2016 |
|---|---|---|
| Average positions on a monthly basis | 1,195 | 1,207 |
| Total positions at year end | 1,169 | 1,232 |

The number of employees includes positions allocated to other companies in the Company through expense-sharing arrangements.

In calculating the number of positions, overtime for which overtime wages are paid based on specific reports (not on a global basis) was taken into account.

The number of jobs also includes translation to hours of overtime cost, plus external personnel positions that are not Company employees, but provide work services, which are required to regulate personnel in the framework of ongoing operations and assimilate projects, plus 92 employee positions whose salaries were capitalized to fixed assets in 2017 (2016 – 87 positions).

**Efficiency plan**

During the years 2015-2017 and through the date of signing the report, the Company has implemented and is implementing the human resources policy in order to increase efficiency in manpower. For details, see Note 20K to the financial statements above. In the last quarter of the year, the Company implemented a one-time retirement plan, in light of which the Company made more efficient use of additional positions.

**The absorption of employees borrowed from Bank Hapoalim**

As part of the Company's preparations for the separation from the Bank Hapoalim Group, on 1 July 2017, members of the Isracard and Tzameret Mimunim management and the CEO of Tzameret Mimunim, who had previously been loaned employees of the Bank, were absorbed into the Company as employees of Isracard and/or as an employee of Tzameret. This process was carried out after the members of management, aforesaid, terminated their employment in Bank Hapoalim and a settlement of account was carried out with them vis-à-vis the Bank. The members of the Management were absorbed into the Isracard Group under personal agreements. During the last quarter of 2017, the Company also began preparations for the separation of the Company, as mentioned above, among the Bank's loaned employees who are not members of Management. For details, see Note 20(I) to the financial statements above.

## Trends in Human Resources

Human resources strategy in the Company emphasizes organizational stability, with the integration and cultivation of the values of upholding the ethical code, openness, and transparency, along with innovation and achievement, while connecting the workforce with the Company's business objectives.

During 2016 and 2017, the Company continued to maintain this policy, through:

1. Labor relations – Stable and quiet labor relations were maintained and a continuing dialog with partners to this system, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Company's objectives.
3. Examination 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. Involvement and cultivation of satisfaction – encouragement of employees' involvement in and connection to the Company's corporate objectives.
6. Cultivation of employees' sense of belonging, with an emphasis on values, such as mutual trust and respect. This year, too, the Company offered a range of activities for the well-being of employees and their families throughout the year.
7. Leading organization-wide processes in response to changes and in support of the Company's strategy, including adaptation of recruitment and training processes and guidance of the change with support for managers. Development of an experiential, varied and unique learning environment; adapted to the Company's goals.
8. Continuing the assimilation of the ethical code and addressing the regulatory provisions regarding accessibility and corporate responsibility.
9. Raising the value of giving to the community through encouraging volunteering through organizational units, individual activities, and cross-company activities, which includes employees and their families.

### Training

As strategic partners aimed at supporting the achievement of the goals of the organization as a whole and of business units in particular, a tailored training program has been developed for each business unit, including a focused program for employees according to needs that have been identified. In 2016 and 2017, the Company continued adapting its training to the challenges and changing business environment, with an emphasis on improving service and sales skills, assimilating new products and services, and training and deepening the professional knowledge of the employees for the various positions and providing tools that encourage professionalism, creativity and openness to innovation. In addition, a comprehensive training program was developed for the subjects of credit, including a variety of courses at different levels of depth and in accordance with the content and requirements of the role of employees in the various units. During these years, a management development program was also implemented, dealing with the creation of a management strategy and its translation into leading, harnessing and managing employees according to skills and abilities and in accordance with the Company's needs.

**Corporate Responsibility, Ethics and Regulation**

The Company publishes a Corporate Governance Report once every two years. The Company published its second corporate responsibility report in 2016, presenting the Company's overall activity in this area and the impact on the Company's stakeholders in the years 2014-2015.. The report presents a comprehensive review of the Isracard Group in this field and the effects on the Group's stakeholders in 2014-2015.

The Company is committed to value-driven and deferential business conduct with all of its business partners and stakeholders. Isracard's ethical code constitutes the Company's value identity card and reflects the unique values and the code of conduct to which the Company is committed. In 2016 and 2017, the Company took steps to make its marketing websites accessible, as part of implementing accessibility regulations in the field of service and the Internet. The work program complies with the accessibility regulations. In 2018, the Company plans to publish an updated report for the years 2016 – 2017..

**Remuneration policy**

For details regarding the main points of the Company's remuneration policy, including mechanisms for determining a budget and a bonus scheme for various functions in the Company, see Note 20 to the above financial statements above.

**Isracard in the Community**

As a leading company in its field in Israel, the Company considers itself committed to giving back to the community and gives special attention to promoting the generation of the future and the empowerment of women and to strengthening weak and needy and varied populations in Israeli society. The Company is taking steps in continuing to increase the awareness of its employees of the subject of social involvement and encourages them to undertake volunteering activity, from the perception that the added value from giving back to the community is strengthening the "team pride" and the sense of cohesion among employees with the Company.

Involvement in the community is reflected in a wide range of activities and monetary donations by the Company and volunteering activity of employees, including:

Activities in aid of the "Larger Than Life" Association, with the participation of hundreds of employees and their families, collaboration with "Latet" , holiday meals for Shoa survivors at the Company head office, packing and donating food packages for needy families and single soldiers; the volunteering of hundreds of employees in various organizations as part of the Day of Good Deeds activity; adopting the Nachal's reconnaissance battalion as part of the "Adopt a Fighter" project, and ongoing support for the welfare of the battalion and its soldiers now, in its thirteenth year, and many other activities.

**Work relations in the company**

One of the Company's main assets is the human capital of its employees. Accordingly, and taking into account the extent of the manpower in the Company, the Company's dependence on maintaining regular work relations is high. Nevertheless, the Company's management believes that the Company is not dependent on any particular employee.

The workers' organization is a dominant factor in the labor relations in the Company and according to the Company's assessment, the relationship with it is good. Thus, inter alia, it should be noted that no labor disputes, strikes or downtime were declared in the Company. The Company's management maintains ongoing dialogue with the workers' organization in order to maintain a good and proper working relationship.

For further details regarding the Company's human capital (including remuneration plans and bonuses to employees and office holders and share-based payment), see Notes 20 and 21 to the financial statements above and the item "Salaries and benefits to office holders and interested parties" in the Corporate Governance Report.

# Restrictions, legislation, regulations and special material constraints

**Restrictions and supervision on the Company's activity**

In general, as a company engaged in the issuance and acquiring of cards, in the operation of a card system and in the granting of credit, and similar to other credit card companies in the sector, the Company is subject to various laws and directives in connection with its activities in these areas (such as the Debit Cards Law; which regulates relationships between the issuer and the customer relating to the issuance of a card, and includes, inter alia, arrangements such as the need for a contract of engagement, liability in respect of misuse of the card, regulation of non-payment in case of non-supply of a product or service or in case of insolvency of a supplier, etc. The Banking Licensing Law, the Banking Law (Service to the Customer); the Banking Ordinance, 1941; the Supervision of Regulated Financial Services Law; the Regulation of Non-bank Loans Law, 1993, the Credit Data Law, 2016; the Strum Law (and legislative amendments issued by virtue thereof), the Bank of Israel Law, 1954, as well as the regulations, orders and rules issued thereunder, which impose on it various duties and restrictions. In addition, the Company is subject to various regulations issued from time to time by the Banking Supervision Department by virtue of circulars letters and directives, which apply to all credit card companies (or any one of them, as the case may be), such as Proper Conduct of Banking Business Directive No. 470 (Debit Cards), which regulates the activities of credit card companies and of banking corporations regarding the operation of a card system. The directive includes instructions with regard to the routine conduct of the issuance and operation of cards, marketing and mailing, as well as instructions regarding the termination of a card contract. In addition, the directive details a list of all the provisions of the Proper Conduct of Banking Business Regulations applicable to credit card companies, including provisions regarding the composition and activity of the board of directors, the compliance officer, the management of risk, transactions with related parties, management of information technology, measurement and capital adequacy. In addition, additional Proper Conduct of Banking Business Directives apply to credit-card companies from the file of Proper Conduct of Banking Business Directives.

It should be noted that in the area of acquiring, the Company's operations are subject to the receipt of an acquiring license or an acquiring approval of the Banking Supervision Department (by virtue of the Banking Licensing Law). As at the date of signing the report, the Company has an acquiring license from the Bank of Israel, which is renewed once a year.

For further details regarding the restrictions, legislation and standards applicable to the Company, including changes and innovations therein, see the section "Regulatory proceedings" in the Report of the Board of Directors, the Acquiring Segment in the section "Operating Segments" of the Report of the Board of Directors, entitled "Acquiring arrangements with other credit card companies and other arrangements with respect to the industry" and Note 23c.1 to the financial statements. For details regarding legal proceedings and contingent liabilities, see Note 23d to the financial statements.

It should be noted that, in addition to the laws relevant to the Company's activity, specifically as stated above, more general laws, such as the Restrictive Trade Practices Law, 1988, the Interest Law, 1957; the Supervision of the Prices of Goods and Services Law, 1957, the Control of Products and Services Law, 1996, the Protection of Privacy Law, 1981; and regulations, orders and rules issued by virtue thereof, well as other laws dealing with the prohibition of money laundering and the financing of terrorism, the protection of privacy, etc.

The laws and directives mentioned in this section above affect, to a great extent, the manner in which the Company's business is managed (similar to other credit card companies), including the services it provides, its commitments, its conduct and the management of its financial resources.

## Description of the Company's business by operating segments

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

**Credit card issuance segment**

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

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

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

**Critical success factors in the operating segment.**

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

**Key entry barriers in the operating segment.**

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

**Substitutes for the products of the operating segment**

Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services. See also section "Trends, phenomena, developments and significant changes: in the Report of the Board of Directors.

**Contractual Arrangements with Various Banks under the Bank Card Arrangement**

Pursuant to the various agreements between the Company and Europay with the Banks Under Arrangement, each of the Banks in the Arrangement was vested with the authority to determine which of its customers would be fit to join the Company's credit-card arrangement and to recommend to the Company that it be included. Each Bank Under Arrangement is responsible for honoring the full amount of the debits and for paying the amounts that its customers will be charged in connection with their activity in the bank cards issued to them by the Company (in connection with that bank); As part of the said various agreements, there are also arrangements regarding the financial accounting between the parties in connection with the issuance, distribution and use of cards and the parties' responsibility for honoring the charges and uses of the cards.

**Competition**

The area of credit-card issuance is characterized by a very high level of competition, which has intensified in recent years, encompassing all activities and population segments relevant to this sector. For details regarding the credit card sector in Israel and the entities operating therein, as well as trends and regulatory developments that have a material impact on competition in this segment, see the sections "Trends, phenomena, developments and significant changes" and "Regulatory Proceedings" in the Report of the Board of Directors.

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not have credit cards or who have credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; and (2) competition over the "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 the Company's and/or the increase in the volume of use.

The positive factors affecting the Company's competitive standing include among others, the following: (1) the Company and Europay are leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled and experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

The negative factors affecting the Company's competitive standing include, among others: (1) the abundance of significant regulatory changes; (2) technological improvements that create the possibility of developing alternative means of payment in areas, such as payment using cellular phones, which may result in a decline in demand for credit-card issuance; and (3) the entry of retail and other entities into the issuance field and/or the expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve value to cardholders, including by way of improvement of service, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to address the requirements of the Company's customer segments and the needs of market, and the development of alternative products and services to compete with the customary means of payment, such as cash and checks; (3) reinforcement of the Company's status and image through advertising; and (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (5) management of varied benefits plan tailed to the customers' needs..

## The Credit-Card Acquiring Segment

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

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

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

**Critical success factors in the operating segment**

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

**Key entry barriers in the operating segment**

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

However, the Strum Law has stipulated conditions for hosted acquirers and aggregators, which make it easier for new players to enter the Acquiring segment (not as fully-fledged licensees, but as players supported by acquirers' infrastructures). These entities have a lower entry threshold to the sector (for example, they do not require an international organization license; smaller investments in infrastructure, etc.).

**Substitutes for the products of the operating segment**

Alternative payment means, such as cash, standing orders, bank transfers and checks constitute alternatives for payment by credit card and constitute substitute products to the financial services provided by the Company. See also section "Trends, phenomena, developments and significant changes" in the Report of the Board of Directors.

**Competition**

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

For details regarding the credit-card industry in Israel and the factors operating therein, as well as trends and regulatory developments that have a material effect on competition in this segment, see the sections "Trends, phenomena, developments and significant changes" and "Regulatory proceedings" in the Report of the Board of Directors above.

Competition in the acquiring sector is focused on recruiting new merchants for acquiring agreements with the Company, retaining existing merchants as customers of the Acquiring Segment, and preventing desertion to competitors, in the absence of significant transition barriers and costs, which requires the investment of extensive efforts and resources and high sales and marketing expenses. Another aspect of competition in the acquiring sector is focused on the development of financial and operational products and services for merchants. Credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services, such as flexible crediting dates and joint sales-promotion campaigns for the credit-card company and the merchant.

Positive factors affecting the Company's competitive standing include the following, among others: (1) a brand with presence and power (2) professional, skilled and experienced human capital responsible for a marketing, sales, and service system specializing in providing suitable solutions for merchants while maintaining regular contact with them; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services; (5) a solid capital structure and positive cash flows.

Negative factors affecting the Company's competitive standing include, among others, (1) regulation, (2) technological improvements that create the possibility of development of alternative means of payment in areas, which may cause a decline in credit-card acquiring; (3) a change in the scheme of competition through the entry of acquiring mediators, such as aggregators; (4) the absence of cost and significant transition barriers; and (5) merchants' ability to switch acquirers for MasterCard, Isracard, and Visa brands at their discretion.

In order to cope with the competition in this sector, the Company takes the following main measures: (1) the operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems; (2) the investment of resources to improve the service and to maintain merchants as customers and to increase their loyalty while adapting the products and services to the unique needs of the merchant; (3) deepening cooperation with merchants; (4) a competitive and prudent tariff policy (business commission) and (5) the Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the acquiring service provider, and in formulating the overall perception of the Company by merchants.

For details regarding regulatory restrictions applicable to the Company by virtue of the Antitrust Laws, see chapter "Operating segments in the Report of the Board of Directors under the heading "Interchange fee arrangements" abd Note 23c1 to the Financial Statements above.

**The Financing Segment**

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

The Financing Segment comprises two sub-groups determined according to the nature of the customer's activity: consumer credit for private customers, usually with relatively low volumes of financial activity; and corporate credit for businesses, whose credit needs are usually related to financing of their business operations. The types of credit products offered to these two groups naturally differ.

Consumer credit activity is primarily conducted through proactive marketing and advertising, offering the range of credit products for private customers. Products include vehicle loans (usually marketed through collaborations with other companies in the market), card-free loans, loans on the basis of a credit card facility, and designated loans. The business credit activity offers financial services, including loans, credit facilities with business cards, discounting services, advance payments and prepayments.

### Legislative Restrictions, Regulation, and Special Constraints Applicable to the Segment

The Company operates under laws, standards, and regulatory directives applicable to the banking system and to credit-card companies in Israel, such as directives of the Supervisor of Banks, the Antitrust Commissioner, and more.

The following limits apply to the volume of credit, pursuant to the Proper Conduct of Banking Business Directives:

**Transactions with related persons** – Pursuant to Proper Conduct of Banking Business Directive No. 312, "Business of a Banking (Auxiliary) Corporation with Related Persons," among other matters, a limit applies to the Company such that the total "indebtedness to a banking (auxiliary) corporation" , as this term is defined in the aforesaid directive, excluding certain amounts, of all "related persons" of the Company, as defined in the directive, shall not exceed, at any time, 10% of the capital of the auxiliary banking corporation (as defined in Proper Conduct of Banking Business Directive No. 202 concerning capital components).

**Limit on indebtedness of single borrower and borrower groups** – Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and of Borrower Groups," among other matters, a limit applies to the Company such that the rate of the "indebtedness" of a "borrower" and of a "borrower group," as defined in the directive, after deducting the deductible amounts from the indebtedness, in accordance with the directive, shall not exceed 15% and 25%, respectively, of the capital of the Company, calculated according to Proper Conduct of Banking Business Directive No. 202 concerning capital components.

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, from time to time, the Board of Directors of the Company establishes limits on credit concentration in certain sectors of the economy, and a limit on the maximum exposure to a single borrower, as well as according to the credit risk of the borrower, as expressed in the internal rating system.

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

### Critical success factors in the operating segment

According to the Company's assessment, the main critical success factors in the Financing Segment, and the factors which the Group invests efforts and resources to achieve, are the following: (1) matching of a relevant product offering to customers; (2) available sources of financing and the ability to raise capital; (3) management and development of a retail system that is available and accessible to customers, with an emphasis on the direct channels, in order to improve professional service, response times, etc.; (4) a system of risk management and credit controls; (5) an adequate system of controls in order to reduce risks; (6) collaborations with various business partners in the Israeli economy in the provision of financial services; (7) experienced, high-quality human capital; and (8) an operational system including advanced information systems, technologies, and infrastructures.

### Key entry barriers in the operating segment

The key entry barriers in the Financing Segment are the following: (1) the need for financial resources, sources of credit, experience, and extensive knowledge in order to perform the required investments in the operating, financing, advertising, and marketing system and extensive investments in technological infrastructures; (2) the development and management of a credit rating and credit control system, and the collection of information allowing a risk level to be assigned to each customer; (3) the need for capital in order to comply with the directives of the Supervisor of Banks with regard to the ratio of capital to risk-adjusted assets; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

**Alternatives for the products of the operating segment**

Credit services and loans provided by various parties in the economy, either through banks or through other financial operators, serve as substitutes for the credit and financing services provided by the Company.

**Competition**

The Financing Segment is characterized by a high level of competition, encompassing banking institutions and other financial entities, such as finance companies, insurance companies, other credit-card companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required credit, and speed of response.

**Other segment**

This segment includes all of the other activities which do not belong to the issuance, acquiring and/or financing segments, each of which amounts to a reportable segment, including: operation of the credit card system which the Company provides to a fellow subsidiary, which issues and acquires American Express-type credit cards; activity of Isracard Nechasim; and the Company's activity in the area of securing the repayment and discounting of travelers' cheques, acquiring previously issued Visa-type travelers' cheques.

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

Tel Aviv, February 25, 2018

# Appendices to the Annual Report

## Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses

### Average Balances and Interest Rates – Assets

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 15 | * | - | 18 | * | - | 184 | * | - |
| Debtors in respect of credit-card activity(3) | 3,947 | 268 | [illegible] | 3,296 | 228 | [illegible] | 2,485 | 168 | [illegible] |
| Other assets | 391 | 21 | [illegible] | 277 | 14 | [illegible] | 216 | 12 | [illegible] |
| **Total interest-bearing assets** | **4,353** | **289** | [illegible] | **3,591** | **242** | [illegible] | **2,885** | **180** | [illegible] |
| Non-interest-bearing debtors in respect of credit cards | 12,633 | | | 12,387 | | | 11,990 | | |
| Other non-interest-bearing assets(4) | 478 | | | 437 | | | 455 | | |
| **Total assets** | **17,464** | | | **16,415** | | | **15,330** | | |

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Includes derivative instruments and non-monetary assets; net of the allowance for credit losses.

**Note:** Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

## Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

**Average Balances and Interest Rates – Liabilities and Capital**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1,635 | (18) | [illegible] | 777 | (9) | [illegible] | 85 | (6) | [illegible] |
| Other liabilities | 537 | (*-) | | 508 | (*-) | | 464 | (*-) | |
| **Total interest-bearing liabilities** | 2,172 | (18) | [illegible] | 1,285 | (9) | [illegible] | 549 | (6) | (1 ) |
| Non-interest-bearing creditors in respect of credit cards | 12,096 | | | 12,067 | | | 12,032 | | |
| Other non-interest-bearing liabilities(3) | 559 | | | 505 | | | 428 | | |
| **Total liabilities** | 14,827 | | | 13,857 | | | 13,009 | | |
| Total capital means | 2,637 | | | 2,558 | | | 2,321 | | |
| **Total liabilities and capital means** | **17,464** | | | **16,415** | | | **15,330** | | |
| **Interest margin** | | | [illegible] | | | [illegible] | | | [illegible] |
| Net return on interest-bearing assets in Israel | 4,353 | 271 | [illegible] | 3,591 | 233 | [illegible] | 2,885 | 174 | [illegible] |

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

**Note:** Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

## Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

**Average Balances and Interest Rates – Additional Information Regarding Interest-Bearing Assets and Liabilities Attributed to Activity in Israel**

| | For the year ended December 31, 2017 | | | For the year ended December 31, 2016 | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 4,339 | 289 | [illegible] | 3,574 | 242 | [illegible] | 2,867 | 180 | [illegible] |
| Total interest-bearing liabilities | 2,140 | (18) | [illegible] | 1,250 | (9) | [illegible] | 516 | (6) | [illegible] |
| **Interest margin** | | | [illegible] | | | [illegible] | | | [illegible] |
| **CPI-linked Israeli currency** | | | | | | | | | |
| Total interest-bearing assets | 6 | *- | - | 8 | *- | | 8 | *- | - |
| Total interest-bearing liabilities | - | - | - | | - | | - | - | - |
| **Interest margin** | | | - | | | | | | - |
| **Foreign currency (including Israeli currency linked to foreign currency)** | | | | | | | | | |
| Total interest-bearing assets | 8 | *- | - | 9 | *- | | 10 | *- | - |
| Total interest-bearing liabilities | 32 | - | - | 35 | (*-) | | 33 | (*-) | - |
| Interest margin | | | - | | | | | | - |
| **Total activity in Israel** | | | | | | | | | |
| Total interest-bearing assets | 4,353 | 289 | [illegible] | 3,591 | 242 | [illegible] | 2,885 | 180 | [illegible] |
| Total interest-bearing liabilities | 2,172 | (18) | [illegible] | 1,285 | (9) | [illegible] | 549 | (6) | [illegible] |
| **Interest margin** | | | [illegible] | | | [illegible] | | | [illegible] |

* Amount less than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

**Note:** Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

## Table 4 - Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

**Analysis of Changes in Interest Income and Interest Expenses**

Year ended December 31, 2017 against year ended December 31, 2016

| | Increase (decrease) due to change(1) | | |
|---|---|---|---|
| | Quantity | Price | Net change |
| | In NIS millions | | |
| **Interest-bearing assets(2)** | | | |
| Cash on hand and deposits with banks | *- | *- | *- |
| Debtors in respect of credit-card activity | 44 | (4) | 40 |
| Other interest-bearing assets | 6 | 1 | 7 |
| Total interest income | 50 | (3) | 47 |
| **Interest-bearing liabilities(2)** | | | |
| Credit from banking corporations | 9 | (*-) | 9 |
| Other interest-bearing liabilities | (*-) | *- | (*-) |
| Total interest expenses | 9 | (*-) | 9 |

* Amount lower than NIS 0.5 million.

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 on hand and deposits with banks | (*-) | *- | *- |
| Debtors in respect of credit-card activity | 56 | 4 | 60 |
| Other interest-bearing assets | 3 | (1) | 2 |
| Total interest income | 59 | 3 | 62 |
| **Interest-bearing liabilities**[(2)] | | | |
| Credit from banking corporations | 8 | (5) | 3 |
| Other interest-bearing liabilities | (*-) | *- | (*-) |
| Total interest expenses | 8 | (5) | 3 |

* Amount lower than NIS 0.5 million.

(1) The change in quantity was calculated by multiplying the difference between the average balances in each period by the rate of income/expense for the period. The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

**Note:** Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

## Table 5 - Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

In NIS millions

| | 2017 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| **Income** | | | | |
| From credit-card transactions | 376 | 382 | 375 | 359 |
| Net interest income | 66 | 72 | 68 | 65 |
| Other income | 11 | 9 | 11 | 11 |
| **Total income** | **453** | **463** | **454** | **435** |
| **Expenses (income)** | | | | |
| In respect of credit losses | 32 | 29 | 26 | 22 |
| Operating expenses | 168 | 132 | 135 | 145 |
| Sales and marketing expenses | 102 | 80 | 65 | 71 |
| General and administrative expenses | 24 | 19 | 18 | 18 |
| Payments to banks | 95 | 100 | 87 | 89 |
| **Total expenses** | **421** | **360** | **331** | **345** |
| Profit before taxes | 32 | 103 | 123 | 90 |
| Provision for taxes on profit | 13 | 28 | 31 | 25 |
| Profit after taxes | **19** | **75** | **92** | **65** |
| The Company's share in profits of associates after effect of tax | *- | 1 | *- | *- |
| **Net profit** | **19** | **76** | **92** | **65** |
| **Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)** | **26** | **103** | **125** | **89** |

* Amount less than NIS 0.5 million.

## Table 5 - Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data (cont.)

In NIS millions

| | 2016 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| **Income** | | | | |
| From credit-card transactions | 359 | 381 | 356 | 337 |
| Net interest income | 62 | 61 | 57 | 53 |
| Other income | 10 | 11 | 10 | 13 |
| **Total income** | **431** | **453** | **423** | **403** |
| **Expenses (income)** | | | | |
| In respect of credit losses | 26 | 24 | 16 | 14 |
| Operating expenses | 156 | 130 | 139 | 132 |
| Sales and marketing expenses | 73 | 72 | 67 | 53 |
| General and administrative expenses | 21 | 16 | 17 | 16 |
| Payments to banks | 95 | 110 | 99 | 95 |
| **Total expenses** | **371** | **352** | **338** | **310** |
| Profit before taxes | 60 | 101 | 85 | 93 |
| Provision for taxes on profit | 24 | 27 | 27 | 33 |
| **Profit after taxes** | **36** | **74** | **58** | **60** |
| The Company's share in profits of associate companies after effect of tax | 2 | (1) | (*-) | *- |
| **Net profit** | **38** | **73** | **58** | **60** |
| **Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)** | **51** | **100** | **78** | **82** |

* Amount less than NIS 0.5 million.

## Table 6 - Consolidated Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

In NIS millions

| | 2017 | | | |
|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** |
| **Assets** | | | | |
| Cash on hand and deposits with banks | 104 | 72 | 108 | 121 |
| | | | | |
| Debtors in respect of credit-card activity | 16,925 | 17,247 | 16,899 | 16,613 |
| Allowance for credit losses | (172) | (163) | (155) | (152) |
| Debtors in respect of credit-card activity, net | 16,753 | 17,084 | 16,744 | 16,461 |
| | | | | |
| Securities | 26 | 23 | 20 | 20 |
| Investments in associate companies | 5 | 3 | 3 | 3 |
| Buildings and equipment | 267 | 265 | 265 | 267 |
| Other assets | 740 | 741 | 638 | 637 |
| **Total assets** | **17,895** | **18,188** | **17,778** | **17,509** |
| | | | | |
| **Liabilities** | | | | |
| Credit from banking corporations | 2,017 | 2,092 | 1,893 | 1,580 |
| Creditors in respect of credit-card activity | 12,104 | 12,351 | 12,227 | 12,277 |
| Other liabilities | 1,073 | 1,067 | 1,059 | 1,149 |
| **Total liabilities** | **15,194** | **15,510** | **15,179** | **15,006** |
| Equity attributed to shareholders of the Company | 2,701 | 2,678 | 2,599 | 2,503 |
| Total capital | 2,701 | 2,678 | 2,599 | 2,503 |
| **Total liabilities and capital** | **17,895** | **18,188** | **17,778** | **17,509** |

## Table 6 - Consolidated Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

In NIS millions

| | 2016 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| **Assets** | | | | |
| Cash on hand and deposits with banks | 109 | 113 | 89 | 90 |
| | | | | |
| Debtors in respect of credit-card activity | 16,238 | 17,054 | 15,087 | 15,344 |
| Allowance for credit losses | (147) | (139) | (124) | (119) |
| Debtors in respect of credit-card activity, net | **16,091** | **16,915** | **15,683** | **15,225** |
| | | | | |
| Securities | 20 | 19 | 18 | 18 |
| Investments in associate companies | 3 | 2 | 2 | 2 |
| Buildings and equipment | 264 | 277 | 275 | 263 |
| Other assets | 571 | 565 | 459 | 439 |
| **Total assets** | **17,058** | **17,891** | **16,526** | **16,037** |
| | | | | |
| **Liabilities** | | | | |
| Credit from banking corporations | 1,222 | 1,285 | 1,061 | 585 |
| Creditors in respect of credit-card activity | 12,089 | 12,923 | 11,895 | 11,936 |
| Other liabilities | 1,082 | 1,071 | 1,003 | 1,002 |
| **Total liabilities** | **14,393** | **15,279** | **13,959** | **13,523** |
| Equity attributed to shareholders of the Company | 2,665 | 2,612 | 2,567 | 2,514 |
| Total capital | **2,665** | **2,612** | **2,567** | **2,514** |
| **Total liabilities and capital** | **17,058** | **17,891** | **16,526** | **16,037** |

## Table 7 - Consolidated Statements of Profit and Loss – Multi-Period Data

In NIS millions

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| From credit-card transactions | 1,492 | 1,433 | 1,359 | 1,342 | 1,281 |
| Net interest income | 271 | 233 | 174 | 144 | 133 |
| Other income | 42 | 44 | 57 | 77 | 100 |
| **Total income** | **1,805** | **1,710** | **1,590** | **1,563** | **1,514** |
| **Expenses (income)** | | | | | |
| In respect of credit losses | 109 | 80 | 32 | 19 | 7 |
| Operating expenses | 580 | 557 | 529 | 481 | 506 |
| Sales and marketing expenses | 318 | 265 | 235 | 216 | 213 |
| General and administrative expenses | 79 | 70 | 61 | 63 | 72 |
| Payments to banks | 371 | 399 | 372 | 376 | 335 |
| **Total expenses** | **1,457** | **1,371** | **1,229** | **1,155** | **1,133** |
| Profit before taxes | 348 | 339 | 361 | 408 | 381 |
| Provision for taxes on profit | 97 | 111 | 108 | 116 | 95 |
| Profit after taxes | 251 | 228 | 253 | 292 | 286 |
| The Company's share in profits of associates after effect of tax | 1 | 1 | (2) | (*-) | *- |
| **Net profit** | **252** | **229** | **251** | **292** | **286** |
| **Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)** | **343** | **311** | **342** | **396** | **390** |

* Amount less than NIS 0.5 million.

## Table 8 - Consolidated Balance Sheets – Multi-Period Data

In NIS millions

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash on hand and deposits with banks | 104 | 109 | 69 | 248 | 378 |
| Debtors in respect of credit-card activity | 16,925 | 16,238 | 15,223 | 14,192 | 13,653 |
| Allowance for credit losses | (172) | (147) | (112) | (99) | (88) |
| Debtors in respect of credit-card activity, net | 16,753 | 16,091 | 15,111 | 14,093 | 13,565 |
| Securities | 26 | 20 | 19 | 20 | 38 |
| Investments in associate companies | 5 | 3 | 1 | 3 | 5 |
| Buildings and equipment | 267 | 264 | 252 | 265 | 239 |
| Other assets | 740 | 571 | 441 | 417 | 338 |
| **Total assets** | **17,895** | **17,058** | **15,893** | **15,046** | **14,563** |
| | | | | | |
| **Liabilities** | | | | | |
| Credit from banking corporations | 2,017 | 1,222 | 323 | 28 | 18 |
| Creditors in respect of credit-card activity | 12,104 | 12,089 | 12,126 | 12,015 | 11,872 |
| Other liabilities | 1,073 | 1,082 | 988 | 802 | 759 |
| **Total liabilities** | 15,194 | 14,393 | 13,437 | 12,845 | 12,649 |
| Equity attributed to shareholders of the Company | 2,701 | 2,665 | 2,456 | 2,201 | 1,914 |
| Total capital | 2,701 | 2,665 | 2,456 | 2,201 | 1,914 |
| **Total liabilities and capital** | **17,895** | **17,058** | **15,893** | **15,046** | **14,563** |