Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2016

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Message from the Chairman of the Board of Directors

On behalf of the Board of Directors and the Management, I am proud to submit to you the Annual Financial Report of Isracard Ltd. (hereinafter "**Isracard**" or "**the Company**") for 2016.
Isracard finishes 2016 with a net profit of NIS 229 million, compared with NIS 251 million for 2015. The overall capital ratio to risk components increased in 2016 and is 21.8%.

Isracard, which serves a wide and diverse range of customers, and meets individual and corporate customers in the various channels, continues to place service to its customers as a central goal, providing the optimal solution to the customer's needs. In this context, we have invested in enlisting new customers and deepening the relationship with our existing ones. This year, we have continued to expand the possibilities available to our customers for receiving service and for executing transactions in a range of channels, all this while maintaining excellence in service, operation and processes.

With the intensification of competition in the payments market in Israel, which places the Company in direct competition with both new and long-standing players from the financial arena and from other new fields, the management has worked towards continuity and development of growth engines for the Company, under changing market and increasingly competitive conditions and in the Company's various operating segments. This competition is expected to intensify in 2017, as a result of the moves of the various players in the market, as well as from significant regulatory activity, which impacts the Company's core operations.

As the leading credit card company in Israel, we have continued to lead the payments market, as well as in light of the new era's challenges, the technological developments and the consumers' expectations and out of an understanding of the importance of leading the realms of digital, information and activity in new arenas. To that end, we established a dedicated department for managing and leading the digital, information and innovation realms in the group, while focusing upon and specializing in these worlds.

As part of our desire to provide advanced and diverse options for making the services and activities accessible to a wide variety of customers, the company launched a variety of new and advanced digital services for its customers over the last year.

These issues will continue to serve as the Company's strategic focus in 2017 as well, and it will continue to invest in providing a solution to the customer's needs and in promoting the personalization and in making content and benefits that are relevant to the customer accessible in various channels. In addition, the company will continue to expand the digital services to private and business customers, while improving the digital experience in each of the channels and will continue to promote cooperation and assimilation of innovative technologies, while raising value for its customers.

Alongside the core engagement in the payments market, we continued to grow in the Company's credit portfolio in 2016. As of the end of 2016, the consumer credit balance amounted to a total of NIS 2,078 million, and the business credit balance amounted to a total of NIS 1,074 million. We continued to maintain ongoing monitoring, control and analysis processes this year as well, for the purpose of continuing to provide credit in educated rational fashion while managing risks in a responsible, controlled and high quality way.

The year 2016 is ending with significant uncertainty upon completion of the legislation on the "Increasing of Competition and Reducing Concentration in the Banking Market in Israel" (the "Strum Law"). Implementation of the legislation, including the separation of Isracard from Bank Hapoalim, poses challenges and implications, some of which are having a significant impact on the Company, the structure of the market and the companies operating within it. The structure of the new market, resulting from implementation of the law, poses significant challenges to the company, but also embodies business opportunities at the same time. The Company shall prepare for the changing reality, while continuing to give serious attention to its private and business customers.

With the end of 2016, we view the future and the continuation of fruitful business activity. The Company shall continue development of its multi-year strategic plan. The plan is based on an extensive analysis of the economic, regulatory and business environment, and rests on the Company's performance ability under the management's leadership. The plan combines placing the customer at the center with a regulated view of developments in the payments industry around the world and in Israel, and it is focused on continuing the Company's positioning as a leader in the payments industry, the development and perfection of new growth engines, excellence and innovation in products and processes – all this in conjunction with qualitative risk management and advanced technological infrastructures.

This year, the Company continued to conduct many and diverse 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.

Beyond business excellence, as a leading company in Israel, Isracard views itself as committed to giving to the community and dedicates special attention to maintaining the future generation, empowerment of women and strengthening of disadvantaged, needy and diverse populations in Israeli society. Isracard is working constantly 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 usand the members of the Board of Directors, the management, and of course, the Company's employees for their hard work and devotion, which enables the Company to continue to lead and develop.

Sincerely,

Ronen Stein, Chairman of the Board of Directors

Tel Aviv, February 26, 2017

Isracard Ltd. and its Consolidated Companies

Report of the Board of Directors and Management

For the year ended December 31, 2016

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General Review, Targets and Strategy

Summary Description of the Company and Main Areas of Operation

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

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

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

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

Forward-Looking Information

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

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

Principal Condensed Financial Information

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

Net profit of the Company in 2016 amounted to NIS 229 million, compared with NIS 251 million in the corresponding period last year, a decrease of 8.8%.

Net return on average equity in 2016 stood at 9.0%, compared with 10.8% in 2015.

Total assets of the Company at December 31, 2016 amounted to NIS 17,058 million, compared with NIS 15,893 million at the end of 2015.

The balance of debtors in respect of credit card activity, net at December 31, 2016 amounted to NIS 16,091 million, compared with NIS 15,111 million at the end of 2015.

Total capital attributable to the Company's shareholders at December 31, 2016 amounted to NIS 2,665 million, compared with NIS 2,456 million at December 31, 2015.

The ratio of total capital to risk elements at December 31, 2016 amounted to 21.8%, compared with 21.0% at December 31, 2015.

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

NIS in millions

	Year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Income					
From credit card transactions	1,433	1,359	1,342	1,281	1,302
Net interest income	233	174	144	133	141
Other income	44	57	77	100	75
Total income	**1,710**	**1,590**	**1,563**	**1,514**	**1,518**
Expenses					
In respect of credit losses	80	32	19	7	37
Operating expenses	557	529	481	506	485
Selling and marketing	265	235	216	213	257
General and administrative	70	61	63	72	72
Payments to banks	399	372	376	335	348
Total expenses	**1,371**	**1,229**	**1,155**	**1,133**	**1,199**
Profit before taxes	339	361	408	381	319
Provision for taxes on income	111	108	116	95	85
Profit after taxes	228	253	292	286	234
Company's share in profits (losses) of associate companies after the effect of tax	1	(2)	(*-)	*-	(*-)
Net profit					
Before attribution to non-controlling rights-holders	229	251	292	286	234
Attributed to non-controlling interests	-	-	-	-	*-
Attributed to the shareholders of the Company	**229**	**251**	**292**	**286**	**234**
Principal financial ratios					
Expenses to income	80.2%	77.3%	73.9%	74.8%	79.0%
Expenses to income before payments to banks	56.8%	53.9%	49.8%	52.7%	56.1%
Basic and diluted net profit per ordinary share attributed to shareholders of the Company (in NIS)	**311**	**342**	**396**	**390**	**318**

* Less than NIS 0.5 million

Table 2 - Consolidated Balance Sheets – Multi-Period Information

NIS in millions

	At December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Assets					
Cash and bank deposits	109	69	248	378	461
Debtors in respect of credit card activity	16,238	15,223	14,192	13,653	13,659
Allowance for credit losses	(147)	(112)	(99)	(88)	(83)
Debtors in respect of credit card activity, net	**16,091**	**15,111**	**14,093**	**13,565**	**13,576**
Securities	20	19	20	38	79
Investments in associate companies	3	1	3	5	2
Buildings and equipment	264	252	265	239	217
Other assets	571	441	417	338	317
Total assets	**17,058**	**15,893**	**15,046**	**14,563**	**14,652**
Liabilities					
Short-term bank credit	1,222	323	28	18	37
Creditors in respect of credit card activity	12,089	12,126	12,015	11,872	12,123
Deferred notes	-	-	-	-	31
Other liabilities	1,082	988	802	759	757
Total liabilities	**14,393**	**13,437**	**12,845**	**12,649**	**12,948**
Capital attributed to the Company's shareholders	2,665	2,456	2,201	1,914	1,704
Total capital	2,665	2,456	2,201	1,914	1,704
Total liabilities and capital	**17,058**	**15,893**	**15,046**	**14,563**	**14,652**
Principal financial ratios					
Capital attributed to the Company's shareholders to total assets	15.6%	15.5%	14.6%	13.1%	11.6%
Total income to average balance of assets	10.4%	10.4%	10.4%	10.2%	10.5%
Total expenses to average balance of assets	8.4%	8.0%	7.7%	7.6%	8.3%
Tier 1 shareholders' equity ratio (2)	20.7% (1)	19.9% (1)	18.9% (1)	17.3%	15.2%
Overall capital ratio (2)	21.8% (1)	21.0% (1)	19.8% (1)	17.4%	15.4%
Leverage ratio (1) (2)	12.9%	12.1%			
Expenses in respect of credit losses to the average balance of debtors in respect of credit card activity	0.51%	0.22%	0.14%	0.05%	0.28%
Net profit yield to average capital	9.0%	10.8%	14.3%	15.9%	14.5%
Profit before tax yield to average capital	13.3%	15.6%	20.0%	21.1%	19.7%

(1) Pursuant to Basel III.
(2) For additional information, see the “Capital Adequacy and Leverage” Chapter below.

Additional information regarding the Company’s key figures by quarters, see the Corporate Governance Report in the “Annexes” Chapter.

Main Risks to which the Company is Exposed

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

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

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

Information security risks and cyber incidents: - the risk that material 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 the Company.

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

Liquidity 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.

Strategic risk – deriving from flawed business decisions, improper implementation of business decisions and the failure to perform or adapt a work plan to changes in the business environment.

Detailed information on the Third Pillar, in accordance with the disclosure requirements of the Third Pillar, is in the Risks Report published on the Company website.

Targets and Business Strategy

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

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

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

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

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

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

Developing and training human resources, adapting to changing needs.

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

Expansion in areas of credit and finance for private and corporate customers: competition in the growing credit area and to address the changing needs of its customers. The Company invests great efforts in finding a range of credit and finance solutions through various channels which are tailored to diverse populations and needs. In addition, there is a constant improvement in the area of underwriting and credit control, for controlled support of risk to broaden activities in the various sectors.

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

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

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

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

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

Strategic partnerships

Agreements with international organizations

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

Agreements with banking corporations

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

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

Agreements with customer clubs

As part of the activity with the customer clubs, the Company enters into agreements with various entities representing various customer groups, for the issue of credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services in a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. Pursuant to the range of different types of credit cards the Company issues includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Hever cards for career military personnel and retirees, Life-Style club cards, Ashmoret cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., the Rami Levi club card cards of retail chains, etc.

The main service-providers of the Company include:

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

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

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

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

IBM is the exclusive supplier of mainframe computers to the Company.

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

Main project planned

The project to adapt the characteristics of the immediate debit card issued by the Company to the regulatory guidelines of the Bank of Israel, including the necessary changes in the processes of settlement in respect of the interchange fee and the dates of the credits to the merchants. The project combines the adaptation and development of interfaces with ABS and banks.

Sources of finance

The Company finances its ongoing activity, primarily through credit from banks, loans from a sister company and cash flow from ongoing activities.

In order to preserve a variety of sources of finance, the Company takes care to diversify utilization of the sources of financing by using different sources of financing each time, as relevant. In addition, the Company works to ensure a line of liquidity from 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, which include, 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 of the Company's results of operations is examined, for making decisions and outlining the appropriate policy and formulating recommendation to the Board of Directors on the various matters, as required.

The credit card sector in Israel

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

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

In recent years, two clear trends may be seen in the credit card issuing sector in Israel: (1) the issuance of non-bank credit cards by the credit cards companies, which are mostly linked to customer clubs or other consumer bodies; (2) the expansion of the range of services supplied by the credit card companies in the area of credit and finance to card-holders and merchants.

The credit card sector in Israel is characterized by strict and dynamic regulatory intervention in the businesses of the companies operating in the field, both because each of them is an "auxiliary corporation", and in connection with their activities in the area of credit cards, including (among other things) the Debit Cards Law, 5746 – 1986, ("the Debit Cards Law") and the related regulations, the Banking Law (Service to the Customer), 5741 – 1981, ("the Banking Law (Service to the Customer)") and the Prohibition of Money Laundering Law, 5760 – 2000 ("the Prohibition of Money Laundering Law") and the order which was issued thereunder by the Bank of Israel. In addition, various directives from the Banking Supervision Department apply to the credit card companies, including Proper Conduct of Banking Management Regulation No. 470, which regulates the activity of credit card companies, and Proper Conduct of Banking Management Regulation No. 331, which provides standards for risk management, with the aim of strengthening the financial solvency of the banking system.

The Bank Hapoalim Group is a member in Visa Europe Ltd. During 2016, Visa Inc. realized its PUT option to purchase control of Visa Europe Ltd.

Economic and Financial Review

Developments in the Global Economy

Global growth in 2016 stood at 3.1%, similar to the previous year (estimates of the International Monetary Fund). In the developed countries, a slowdown in the growth was recorded to a rate of 1.6% compared with 2.1% in 2015. The slowdown in the growth of the developed countries was prominent in the US, which grew at less than 1.6% compared with 2.6% in the previous year. The Euro Bloc also experienced a slowdown to 1.7%. In emerging economies, a growth was recorded at a rate similar to that in the past year at a rate of 4.1%.

Israel's economy

Activity in the economy

The economy grew in 2016, according to the early estimates of the CBS, at the high rate of 3.8%. The growth was the result of an increase of about 6% in private consumption, including a sharp increase of 24% in the purchase of vehicles. The rise in salaries in the economy alongside a low interest rate and strong exchange rate increased the public’s purchasing power and they were the driving force behind the sharp increase in consumption. Over the past year, there was also a sharp increase of 11% in investments in fixed assets, following a two-year freeze.

Fiscal and monetary policy

The Bank of Israel interest rate stood at 0.1% from March 2015 and until the end of 2016. The interest rate remained unchanged in the first two months of 2017 as well. Monetary policy was expansive against the background of negative inflation and the continued appreciation in the Shekel exchange rate. The interest gap vis-à-vis the United States continued to widen, in light of the increase in the Fed’s interest rate in the month of December to a rate of 0.75%. As of February 2017, the capital market embodies the expectation that the interest rate will not change throughout 2017.

Inflation and exchange rates

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

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

Regulatory initiatives

1. In June 2015, the Banking Supervision Department published a number of directives whose purpose was to bring about implementation of recommendations and measures to expand the distribution and use of immediate debit cards in Israel and the intensification of competition in the area of debit cards. Pursuant to the directives, inter alia, the Banking Supervision Department provided regulations for distributing immediate debit cards to customers of the banks and rules for the immediate settlement of accounts in immediate debit transactions and the method of presenting a summary of the transactions executed by the card and the time-tables for implementation (including crediting the merchant with transactions executed in immediate debit cards within 3 days of transmission of the transaction, as of April 1, 2016). In August 2015, a regulation was published in the Official Government Gazette, in which the Governor of the Bank of Israel announced an interchange fee for immediate debit transactions as a commission under supervision and the rate was set at 0.3% of the amount of the transaction for a period of a year, with effect from April 1, 2016.

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

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

4. In June 2015, The Minister of Finance and the Governor of the Bank of Israel appointed a committee to expand competition in common banking and financial services extended to merchants and non-large businesses (the Strum Committee). The Committee was charged with making recommendations on the subject of the introduction of new players to this field, including through the separation of credit card companies from bank ownership. The Committee was also charged with the duty to remove barriers to the entry of players and the increase in competition, as aforesaid. On July 6, 2016, the Committee's conclusions were published along with a draft law for increasing competition and reducing concentration and conflicts of interest in the banking market in Israel. As part of the draft law, it was recommended to, inter alia, and subject to the terms specified in the draft law; separate the credit companies from the major banks within three or four years from the date of publication of the law; to determine rules regarding the issuance of debit cards; prohibit the major banks from issuing and clearing the debit cards themselves; grant protection through temporary provisions for the new players, including the credit card companies; to enable the credit card companies to use information at their disposal arising from the operation of issuing; to compel all banks to offer all credit cards and the terms of all the issuers who requested that the bank do so. As part of the discussions that took place on the bill in the Knesset's Reforms Committee, it was decided to include additional subjects in the bill, among them a second lien, hosting clearers and clearers working with bundlers. On January 23, 2017, the Knesset Plenum approved the law in a second and third reading. On January 31, 2017, the law was published in the Reshumot.

5. In December 2016, the Knesset Plenum approved by a second and third reading the Economic Plan (Legislative Amendments for Implementation of the Economic Policy for the 2017-2018 Budget Years) Bill, 5777-2016. The draft bill includes a chapter on “Increasing the Competition in Retail Credit”, which addresses, inter alia, the regularization of the field of credit cards that are not issued by a banking corporation and regulating the activity of credit unions. On December 29, 2016, the law was published in the Reshumot.

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

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

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

9. In October 2015, the Knesset in plenum approved in a first reading the proposed Intensification of Tax Collection and Increased Enforcement Law, which is intended, inter alia, to fight money laundering and increase collection of tax, and pursuant to which, a special reporting duty will be provided for financial entities, such that they will report on a routine basis to the Tax Authority on the activity of their customers. In November 2015, the Constitution Committee decided to split the bill into two separate bills and in March 2016 the Knesset approved in a second and third reading the first part as the Prohibition of Money Laundering (Amendment Number 14) Law, 5776-2016, which deals with the defining of government handling of money launderers. The Constitution Committee has yet to conclude its discussions regarding the second part which deals with the reporting by financial bodies, but it was clarified that the new mechanism will only deal with reporting of private customers and not business customers. Following the aforesaid Amendment Number 14, the Banking Supervision Department published a letter regarding preparation for compliance risk management in light of the definition of tax offences as source offences. According to the letter, inter alia, all of the regulations from the field of the prohibition of money laundering that apply to banking corporations, shall apply from now on with regard to the customer’s commission of tax offences as well. In addition, the Knesset Plenum approved in December 2016 additional amendments to the Prohibition of Money Laundering Law in a first reading, which are intended to streamline and improve the struggle against money laundering and adjusting the existing legislation to international standards in the field, this in accordance with the FATCA Agreement with the US government. In February 2017, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Management Directive No. 411 regarding management of risks concerning the Prohibition of Money Laundering and Prohibition of Terror Financing. The draft constitutes an alignment with the up-to-date international standards on the issue of Prohibition of Money Laundering and Terror Financing and is expected to facilitate acceptance of the State of

Israel into the FATF as a full member. The draft expands the existing regulation on the issue and was revised as a risk management regulation.

10. In July 2016, the Banking Supervision Department published a new Proper Conduct of Banking Management Regulation regarding "Online Banking", as well as an amendment to the complementary directives to the abovementioned regulation, inter alia to the regulation regarding delivery of online messages. In addition, a circular was published in August 2016 regarding "Types of Accounts and Conditions whose Fulfillment shall not Require the Customer's Signature on the Agreement". The regulation regarding "online banking" regularizes the banking corporations' online activity vis-à-vis their individual or small business customers, and enables remote operations in a variety of banking services. Alongside the reliefs, the regulation establishes principles for the management of the risks of online banking, both in internal systems and processes in the banking corporations and in the conduct vis-à-vis the customer. The regulation entered into effect in January 2017.

11. In August 2015, the Bank of Israel published an intermediate report regarding the "Debit Card Transactions Execution Chain" that includes recommendations for increasing competition, efficiency and stability in the debit cards market, which, according to the Bank of Israel, are expected to remove the existing barriers in the market and enable the entry of new players. As part of the conclusions of the report, the Bank of Israel published in July 2016 the "Principles and Ancillary Measures for Development of a Protocol for the Execution of a Debit Card Transaction and its Usage" Document, which presents the principles of the protocol (a technological specification and transmission structure, which is used for transferring information on the debit card transaction between individuals in the transaction's chain of execution) and recommendations for ancillary measures for implementation of the principles. In addition, it published the terms for accessing the regulated payments systems.

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

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

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

Disclosure regarding 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 regarding requests to approve certain claims as class actions against the Company,

An event after the balance sheet date

With regard to an event after the date of the financial statements, see Note 29 to the financial statements below.

Changes in accounting policy and critical estimates

During the reported period, no change occurred in the Company’s accounting policy on critical issues, except for an update to the liability for employee rights that are measured on an actuarial basis, in respect of the streamlining outline following the Banking Supervision Department’s letter regarding “Operational Streamlining of the Banking System in Israel” and in relation to the employees’ turnover rates. For additional details, see the Accounting Policy and Critical Estimates Chapter below as well as Note 20 in the Financial Statements below.

Significant developments in income, expenses and other comprehensive income

The Company's net profit in 2016 amounted to NIS 229 million, compared with NIS 251 million in the corresponding period last year, a decrease of 8.8%.

The Company profit per share in 2016 amounted to NIS 311, compared with NIS 342 in the corresponding period last year, a decrease of 9.1%.

The rate of return on net profit to average capital stood at 9.0% in 2016, compared with 10.8% in 2015.

The rate of return of profit before tax to average capital stood at 13.3% in 2016, compared with 15.6% in 2015.

Income and Expenses

Income from transactions in credit cards in 2016 amounted to NIS 1,433 million, compared with NIS 1,359 million in 2015, an increase of 5.4%, arising from the following factors:

- **Income from merchants, net** – amounted to NIS 833 million, compared with NIS 836 million in 2015, a decrease of 0.4%. The decrease derives from a fall in the rate of commission to merchants, partly offset by an increase in clearing turnover of transactions made in merchants connected to the Company in clearing agreements.

- **Income in respect of credit card holders** – amounted to NIS 600 million, compared with NIS 523 million in 2015, an increase of 14.7%. The increase derived mainly from the effect of an increase in the turnover of transactions in cards of the Company in Israel which were cleared by other clearers.

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

Interest income, net in 2016 amounted NIS 233 million, compared with NIS 174 million in 2015, an increase of 33.9%. The increase derived mainly from an increase in interest-bearing credit balances.

Expenses in respect of credit losses in 2016 amounted to NIS 80 million, compared with NIS 32 million in 2015, an increase of 150.0%. The increase was primarily attributable to an increase in consumer credit balances and the balance of problematic debts that influence the size of the collective allowance.

Operating expenses in 2016 amounted to NIS 557 million, compared with NIS 529 million in 2015, an increase of 5.3%.

Selling and marketing expenses in 2016 amounted to NIS 265 million, compared with NIS 235 million in 2015, an increase of 12.8%. The increase derives from a net increase in expenses in respect of benefits to credit card holders and commitments with customer clubs.

General and administrative expenses in 2016 amounted to NIS 70 million, compared with NIS 61 million in 2015, an increase of 14.8%.

Payments to banks in 2016 amounted to NIS 399 million, compared with NIS 372 million in 2015, an increase of 7.3%.

Provision for taxes on profit in 2016 amounted to NIS 111 million, compared with NIS 108 million in 2015. The effective tax rate of the total profit from operations before taxes reached 32.7%, compared with 29.9% in 2015. (In a subsidiary, which is a financial institution, as defined in the Value Added Tax Law, 1975, the historical tax rate in 2016 stood at 35.9%, compared with 37.6% in 2015). 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 2016 amounted to income of NIS 1 million, similar to 2015.

Adjustments of liabilities due to employee rights, net, in 2016 amounted to an expense of NIS 35 million, compared with an expense of NIS 2 million in 2015.

Table 3: Operating data

Number of credit cards (in thousands)

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**

Number of valid credit cards as of December 31, 2015

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

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

	For the year ended December 31	
	2016	**2015**
Bank cards	96,094	91,158
Non-bank cards –		
Credit risk on the Company	16,390	15,171
Credit risk on others	1,330	1,215
	17,720	16,386
Total	**113,814**	**107,544**

Definitions:

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

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

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

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

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

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

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

The Company applies International Accounting Standard 38 "Intangible Assets", and the provisions determined pursuant to SOP-98-1 "Accounting for the cost of computer software developed or obtained for internal use". In view of the accounting complexity in the process of capitalizing software costs, and in light of the materiality of the amounts of the software costs capitalized, the Banking Supervision Department has provided directives for the Company on the topic of capitalization of software costs, according to a materiality threshold 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 4: Investments and expenses of the Company in respect of Information Technology

Expenses incurred for the maintenance and development of information-technology and assets in respect of Information Technology in 2016 are detailed below:

Expenses in respect of 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	-	-	-*	-*
Total	**72**	**18**	**-***	**90**

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

Table 4: 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 2015 are detailed below:

Expenses in respect of the Information Technology Department as included in the statement of profit and loss (in NIS millions)

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

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

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

Balances of assets in respect of Information Technology (in NIS millions)

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

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to sister company.

(3) Including prepaid information technology expenses the Information Technology Department

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, 2016 amounting to NIS 54 million compared with NIS 68 million at the end of 2015, a decrease of 20.6%.

- Liability in respect of debt discounting as of December 31, 2016 amounting to NIS 131 million compared with NIS 61 million at the end of 2015, an increase of 114.8%.

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, 2016 stood at NIS 1,650 million, compared with NIS 1,595 million at the end of 2015, an increase of 3.4%

Debtors' balances in respect of credit cards to businesses under the Company's responsibility as of December 31, 2016 stood at NIS 168 million, compared with NIS 165 million at the end of 2015, an increase of 1.8%.

Debtors' balances in respect of credit cards under banks' guarantee as of December 31, 2016 stood at NIS 9,719 million, compared with NIS 9,805 million at the end of 2015, a decrease of 0.9%.

Balances of credit to private persons under the Company's responsibility as of December 31, 2016 stood at NIS 2,078 million, compared with NIS 1,508 million at the end of 2015, an increase of 37.8%, attributable to the Company increased activity in this area.

Credit balances to businesses under the Company's responsibility as of December 31, 2016 stood at NIS 1,074 million, compared with NIS 829 million at the end of 2015, an increase of 29.6%.

Credit balances under banks' guarantee as of December 31, 2016 stood at NIS 74 million, compared with NIS 75 million at the end of 2014, a decrease of 1.3%.

The balance of the allowance for debtors in respect of credit cards to private persons under the Company's responsibility as of December 31, 2016 stood at NIS 37 million, compared with NIS 32 million at the end of 2015, an increase of 15.6%.

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

The balance of the allowance in respect of credit to private persons under the Company's responsibility as of December 31, 2016 stood at NIS 76 million, compared with NIS 52 million at the end of 2015, an increase of 46.2%.

The balance of the allowance in respect of commercial credit under the Company's responsibility as of December 31, 2016 stood at NIS 22 million, compared with NIS 19 million at the end of 2015, an increase of 15.8%.

The balance of the allowance in respect of credit risk under the guarantee of banks and others as of December 31, 2016 stood at NIS 12 million, compared with NIS 10 million at the end of 2015, an increase of 20.0%.

2. Scope and severity of problem debts

Problematic credit risk as of December 31, 2016 amounted to NIS 246 million, compared with NIS 170 million at the end of 2015, an increase of 44.7%.

The balance of impaired debts as of December 31, 2016 amounted to NIS 27 million, compared with NIS 15 million at the end of 2015, an increase of 80.0%.

The balance of substandard debts as of December 31, 2016 amounted to NIS 21 million, compared with NIS 12 million at the end of 2015, an increase of 75.0%

The balance of debts under special supervision as of December 31, 2016 amounted to NIS 198 million, compared with NIS 143 million at the end of 2015, an increase of 38.5%

Additional balance sheet items

Cash and deposits in banks as of December 31, 2016 amounted to NIS 109 million, compared with NIS 69 million at the end of 2015.

Securities in the available-for-sale portfolio as of December 31, 2016 amounted to NIS 20 million, compared with NIS 19 million at the end of 2015.

Buildings and equipment as of December 31, 2016 amounted to NIS 264 million, compared with NIS 252 million at the end of 2015.

Other assets as of December 31, 2016 amounted to NIS 571 million, compared with NIS 441 million at the end of 2015, of this receivables in respect of discounting amounted to NIS 309 million and NIS 218 million, respectively.

Credit from banking corporations as of December 31, 2016 amounted to NIS 1,222 million, compared with NIS 323 million at the end of 2015.

Creditors in respect of credit card activity as of December 31, 2016 amounted to NIS 12,089 million, compared with NIS 12,126 million at the end of 2015. 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, 2016 amounted to NIS 1,082 million, compared with NIS 988 million at the end of 2015. Of this, creditors for gift certificates and prepaid cards amounted to NIS 143 million and accrued expenses in respect of salary and related expenses amounted to NIS 88 million. (in 2015 – creditors for gift certificates and prepaid cards 131 million and accrued expenses in respect of salary and related expenses NIS 61 million).

3. Off-balance sheet credit

Balances of unutilized credit facilities under the Company's responsibility as of December 31, 2016 stood at NIS 9,201 million, compared with NIS 9,004 million at the end of 2015, an increase of 2.2%.

Balances of unutilized credit facilities under bank guarantee as of December 31, 2016 stood at NIS 19,031 million, compared with NIS 26,503 million at the end of 2015, an increase of 28.2%.

Balances of the allowance in respect of unutilized credit facilities of Company as of December 31, 2016 stood at NIS 10 million similar to the amount at the end of 2015.

Additional off-balance sheet items

Exposure in respect of facilities to merchants as of December 31, 2016 amounting to NIS 144 million, compared with NIS 163 million at the end of 2015, a decrease of 11.7%.

Exposure in respect of other liabilities and guarantees as of December 31, 2016 amounting to NIS 213 million, compared with NIS 199 million at the end of 2015, an increase of 7.0%.

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

In general, the capital requirement of the Company is based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives – "Capital Measurement and Adequacy" 299, 201-211. However, as at December 31, 2016, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Shareholders' equity, Tier 1 capital for 2016 amounted to NIS 2,680 million, compared with NIS 2,457 million in the corresponding period last year, an increase of 9.1%.

Overall capital for 2016 amounted to NIS 2,817 million, compared with NIS 2,583 million in the corresponding period last year, an increase of 9.1%.

Risk assets in respect of credit for 2016 amounted to NIS 10,940 million, compared with NIS 10,401 million in the corresponding period last year, an increase of 5.2%.

Risk assets in respect of market risk for 2016 amounted to NIS 19 million, compared with NIS 18 million in the corresponding period last year, an increase of 5.6%.

Risk assets in respect of operating risk for 2016 amounted to NIS 1,963 million, compared with NIS 1,905 million in the corresponding period last year, an increase of 3.0%.

The overall capital to risk components ratio for 2016 amounted to 21.8%, compared with 21.0% in the corresponding period last year.

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

Table 5: Capital adequacy (1)

1. Capital for capital ratio computation purposes

	December 31	
	2016	**2015**
	NIS in millions	
Tier 1 shareholders' equity and Tier 1 capital after deductions	2,680	2,457
Tier 2 capital	137	126
Total overall capital	**2,817**	**2,583**

2. Weighted balances of risk assets

	December 31	
	2016	**2015**
	NIS in millions	
Credit risk	10,940	10,401
Market risks	19	18
Operating risk	1,963	1,905
Total weighted balances of risk assets	**12,922**	**12,324**

3. Capital to risk elements ratio

	December 31	
	2016	**2015**
	NIS in millions	
Tier 1 shareholders' equity ratio and Tier 1 capital to risk elements ratio	20.7%	19.9%
Overall capital to risk elements ratio	21.8%	21.0%
Minimum Tier 1 shareholders' equity ratio required by the Banking Supervision Department (2)	8.0% (2)	9.0%
Minimum overall capital ratio required by the Banking Supervision Department (2)	11.5% (2)	12.5%

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

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 “Clearers and Clearance of Debit Card Transactions”, which include a relief for the clearer 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 targets for minimal capital ratios, as specified below:

Capital Adequacy Target

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

The Company's capital adequacy targets are as follows:

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

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

Capital adequacy

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

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

Liquidity coverage ratio

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

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

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

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 February 2017, after the balance sheet date, the Company's Board of Directors decided, subject to approval of the General Meeting, to declare a dividend in the amount of NIS 230 million.

Operating Segments

General

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

Seasonality

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

The Credit-Card Issuance Segment

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

Products and Services

The Company issues and operates Isracard (a private brand), MasterCard, and Visa credit cards. The cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and to withdraw cash, for local and international use. The bank cards issued by the Company are distributed to account-holders in banks, which the Company and Europay have agreements with. The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs.

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

Segmentation of Income from Products and Services

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

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

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

Marketing and Distribution

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

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

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

The Company strives to maintain leadership in the digital arena and in the area of mobile payments. As part of its activity in this area, the Company has launched several innovative products: MasterPass, secured payment on the trade website, Israel Railways – purchase of train tickets via the Internet, etc.

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

Profit and profitability – Issuance sector

Net profit of the sector amounted NIS 97 million, compared with NIS 129 million in 2015, a decrease of 24.8%.

The rate of return of net profit to average capital amounted to 6.2%, compared with 8.6% in 2015.

Development of income and expenses

Income of the sector amounted to NIS 1,142 million, compared with NIS 1,092 million in 2015, an increase of 4.6%.

Income from commissions amounted NIS 1,149 million, compared with NIS 1,081 million in 2015, an income of 6.3%.

Net interest expenses amounted to NIS 1 million in 2016, compared with incomes at an amount lower than NIS 0.5 million in 2015.

Other expenses amounted to NIS 6 million, compared with other expenses in the amount of NIS 11 million in 2015.

Expenses of the segment, before payments to banks amounted to NIS 608 million, compared with NIS 549 million in 2015, an increase of 10.7%

Expenses of the segment, including payments to banks amounted to NIS 1,004 million, compared with NIS 918 million in 2015, an increase of 9.4%.

Expenses in respect of credit losses amounted to NIS 21 million, compared with NIS 6 million in 2015.

Operating expenses amounted to NIS 351 million, compared with NIS 332 million in 2015, an increase of 5.7%.

Selling and marketing expenses amounted to NIS 198 million, compared with NIS 177 million in 2015, an increase of 11.9%.

General and administrative expenses amounted to NIS 38 million, compared with NIS 34 million in 2015, an increase of 11.8%.

Payments to banks amounted to NIS 396 million, compared with NIS 369 million in 2015, a decrease of 7.3%.

The income to expenses ratio, before payments to banks reached 53.2%, compared with 50.3% in 2015.

Profit for the sector before taxes amounted NIS 138 million, compared with NIS 174 million in 2015, a decrease of 20.7%.

The provision for tax on profit in the sector amounted to NIS 41 million, compared with NIS 45 million in 2015, a decrease of 8.9%.

Customers – Cardholders

The credit cards issued by the Company service customers in various segments, mostly private customers. As of the date of the report, there are no holders of credit card (bank or non-bank), whose volume of transactions made with the Company's credit cards constitutes 10% of more of the total volume of transactions in the Company's credit cards in 2016.

Clearing segment

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

Products and services

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

In addition to the clearing services offered by the Company, the Company also offers flexible crediting dates and options for payment in installments. In addition, the Company also offers services, such as information regarding credits of the merchant and other segmented information, corporate cards and joint advertising campaigns, all with a high quality of service backed by advanced technological infrastructures. In addition, the Company offers clearing of gift cards which it issues, as well as an option for secure clearing via smartphone (Payware). The Company developed and launched a number of services and adapted products for the needs of business customers, such as: (a) "My Internet Store" (cooperation with a third party) which enables merchants to create a full Internet sales website, (b) a MasterPass product – a means of payment for Internet transactions which allows the rapid execution of a payment, secured by entering only a username and password, without entering full credit card details, (c) a "Tashlum-Gan" product which enables credit card holders to execute a payment to an educational institution via credit card, (d) Activity in municipalities for the purpose of linking schools to clearance of parents' payments etc.

Segmentation of Income from Products and Services

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

Marketing and Sales

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

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

Profit and Profitability – Clearing segment

The net profit of the segment amounted to NIS 23 million, compared with NIS 26 million in 2015, a decrease of 11.5%.

The rate of return on net profit to average capital stood at 11.4%, compared with 12.9% in 2015.

Development of income and expenses

Income of the segment amounted to NIS 288 million, compared with NIS 278 million in 2015, an increase of 3.6%.

Income from commissions amounted to NIS 284 million, compared with NIS 278 million in 2015, an increase of 2.2%.

Interest expenses, net, amounted to an expense of NIS 1 million, similar to 2015.

Other incomes amounted to income of NIS 5 million, compared with an income of NIS 1 million in 2015.

Expenses of the segment before payments to banks amounted to NIS 252 million, compared with NIS 236 million in 2015, an increase of 6.8%

Expenses of the segment, including payments to banks amounted to NIS 255 million, compared with NIS 239 million in 2015, an increase of 6.7%.

Expenses in respect of credit losses amounted to NIS 2 million, compared with an amount lower than NIS 0.5 million c in 2015.

Operating expenses amounted to NIS 174 million, compared with NIS 168 million in 2015, an increase of 3.6%.

Selling and marketing expenses amounted to NIS 52 million, compared with NIS 47 million in 2015, an increase of 10.6%.

General and administrative expenses amounted to NIS 24 million, compared with NIS 21 million in 2015, an increase of 14.3%.

Payment to Banks amounted to NIS 3 million, similar to 2015.

The ratio of expenses to income in the segment before payments to banks reached 87.5%, compared with 84.9% in 2015.

Profit for the segment before taxes amounted to NIS 33 million, compared with NIS 39 million in 2015, a decrease of 15.4%

The provision for taxes in the segment amounted to NIS 10 million, compared with NIS 13 million in 2015, a decrease of 23.1%.

Customers

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

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. All revenues and expenses related to the interest bearing operations including discounting and advances, revolving credit and other loans were allocated to the financing segment.

Products and services

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

Segmentation of Income from Products and Services

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

Marketing and Sales

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

Profit and profitability – Financing segment

Net profit of the segment amounted to NIS 85 million, compared with NIS 75 million in 2015, an increase of 13.3%.

Rate of return on net profit to average capital amounted to 11.2%, compared with 12.9% in 2015.

Development of income and expenses

Income of the segment amounted to NIS 242 million, compared with NIS 179 million in 2015, an increase of 35.2%.

Interest income, net, amounted to NIS 235 million, compared with NIS 175 million in 2015, an increase of 34.3%.

Other incomes amounted to NIS 7 million, compared with NIS 4 million in 2015, an increase of 75.0%.

Expenses of the segment amounted to NIS 110 million, compared with NIS 66 million in 2015, an increase of 66.7%.

Expenses in respect of credit losses amounted to NIS 57 million, compared with NIS 26 million in 2015. The increase is primarily attributable to an increase in consumer credit balances and the problematic debt balances that impact the size of the collective allowance.

Operating expenses amounted to NIS 30 million, compared with NIS 23 million in 2015, an increase of 30.4%.

Selling and marketing expenses amounted to NIS 15 million, compared with NIS 11 million in 2015, an increase of 36.4%.

General and administrative expenses amounted to NIS 8 million, compared with NIS 6 million in 2015, an increase of 33.3%.

The ratio of income to expenses in the segment reached 45.5% compared with 36.9% in 2015.

Profit of the segment before taxes amounted to NIS 132 million, compared with NIS 113 in 2015, an increase of 16.8%.

The provision for taxes on profit in the segment amounted to NIS 47 million, compared with NIS 38 million in 2015, an increase of 23.7%.

Customers

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

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

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

Other Segment

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

Profit and profitability - Other segment

Net profit of the segment amounted to NIS 24 million, compared with NIS 21 million in 2015, an increase of 14.3%.

The rate of return on the net profit to average capital stood at 62.3%, compared with 52.0% in 2015.

Development of income and expenses

Income of the segment amounted NIS 38 million, compared with NIS 41 million in 2015, a decrease of 7.3%.

Expenses of the segment amounted to NIS 2 million, compared with NIS 6 million in 2015, a decrease of 66.7%.

The ratio of income to expense in the segment amounted to 5.3%, compared with 14.6% in 2015.

Profit of the segment before taxes amounted to NIS 36 million, compared with NIS 35 million in 2015, an increase of 2.9%.

The provision for taxes on profit of the segment amounted to NIS 13 million, compared with NIS 12 million in 2015, a decrease of 8.3%.

Activity of principal investee companies

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

  The contribution of the net profit of Isracard Mimun to the Company's results of operation amounted to NIS 63 million, compared with NIS 51 million in the corresponding period last year.

  The Company's total investments in Isracard Mimun at December 31, 2016 amounted to NIS 219 million, compared with NIS 156 million in 2015.

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

  The contribution of the net profit of Tzameret Mimunim to the Company's results of operation amounted to NIS 8 million, compared with NIS 6 million in the corresponding period last year.

The Company's total investments in Tzameret Mimunim at December 31, 2016 amounted to NIS 118 million, compared with NIS 110 million in 2015.

Review of risks

General description of the risks and methods of risk management

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

a. General description of the risks

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

Market risk: This is the risk of a loss in balance sheet and off-balance sheet positions deriving from a change in the fair value of a 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 absence of the possibility of legally enforcing the existence of an agreement. Impairment to the Company's activity deriving from an erroneous interpretation of a provision of a law or regulation, or the existence of a legal proceeding (such as class actions) conducted against the Company.

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

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

Liquidity risk: Risk to the Company's profits and stability, deriving from inability to satisfy its liquidity needs, the ability to finance growth in assets and repay its obligations on their due date, without encountering 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, 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 report on risks that is publicized on the Company's website.

b. Risk appetite

Risk appetite is a high-level determination as to the risk that the corporation is willing to assume considering 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 for the purpose of achieving 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 will 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 expected to develop over the long term according to the Company's varying needs, regulatory provisions, generally accepted practice in Israel and around the world and economic environmental conditions. Accordingly, it undergoes periodic examination, validation and refresher procedures in order to support the attainment of the Group companies' risk management concept.

Use of stress scenario tests

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

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

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

The main uses of stress tests are:

- Capital planning and liquidity

- Examination of the Company's risk appetite

- Identification of existing and potential credit concentrations
- Development of tools to mitigate risks and plans for business continuity.

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

c. 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 focuses on the adoption of the approach in which the involvement of an independent factor is required in the business units, in supporting proper credit decision-making, taking into account and being involved in the formulation of the credit policy, classification of problem debts and the approval of material credit exposures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company conducts internal controls of credit-risk management by assigning 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 discounting of receivables,

Determination of risk rating for customer according to statistical models:

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

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

The models may be divided as follows:

AS (Application Scoring) model for new customers;

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

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

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

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

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

Credit policy

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

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

	Balance as at December 31, 2016	Balance as at December 31, 2015
	Reported amounts In NIS millions	
1. Problematic credit risk (1) (2) (3)		
Impaired credit risk	27	15
Inferior credit risk	21	12
Credit risk under special supervision	198	143
Total problematic credit risk	**246**	**170**
Of which: Unimpaired debts in arrears of 90 days or more	-	-
2. Nonperforming assets (2)		
Impaired debts	27	15
Total nonperforming assets	27	15

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

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

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

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

	For the year ended December 31	
	2016	2015
	NIS (millions)	
Balance of impaired debts as of beginning of period	**7**	**7**
Balances classified as impaired during the period, net	5	8
Debts re-classified as non-impaired	-	-
Accounting write-offs, net	(-*)	(3)
Collection of debts classified as impaired during the period, net (2)	(1)	(5)
Balance of impaired debts as of end of period	**11**	**7**

* Amount less than NIS 0.5 million.

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

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

Table 8 – Risk and credit metrics

		December 31	
		2016	2015
		In percent	
A.	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit card activity	0.17	0.10
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	0.54	0.33
D.	Credit loss expenses as a percentage of the average balance in respect of credit card activity	0.51	0.22
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	0.29	0.11
F.	Balance of allowance for credit losses for debtors in respect of credit card activity, as a percentage of the balance of debtors in respect of credit card activity	0.91	0.74
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	31.29	14.29

* 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 suitable 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 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 period 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 60,000 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.

Control activity

The control activity includes two control circles. The first control circle 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 by the Headquarters, Credit Control and Operation Department, in the Credit and Financing Sub-Division in the Company.

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.
- Credit through cards – examination of extraordinary amounts, as well as propriety of interests on loans 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.

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 surveys:

- Material credit is examined (above NIS 100,000).
- 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 out of 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, every month, data on 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 Company 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 submitted every month to the company management and once every quarter it is presented to the Company 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, 2016, the credit risk for private individuals was NIS 3,728 million, compared with 3,103 million on December 31, 2015, a growth rate of approximately 20%.

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

Credit exposure to foreign financial institutions and foreign countries

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

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

Market risk 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 June 2016. 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 assets and liabilities of the Group 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 terms to maturity of assets, liabilities, and capital are performed on a monthly basis.

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

C. Exposure to the value of securities

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

D. Derivative financial instruments

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

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

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

	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**

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

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

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

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

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

** Including Israeli currency linked to foreign currency.

Table 11 – Exposure of the Company and its consolidated subsidiaries to changes in interest rates as of December 31, 2016

Reported amounts

In NIS millions

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

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

Reported amounts

In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration
									%	**Years**
Linked Israeli currency										
Financial assets:										
Financial assets*	19	30	48	1	5	-	-	103	0.21%	0.47
Total fair value	19	30	48	1	5	-	-	103		0.47**
Financial liabilities:										
Financial liabilities*	13	21	32	-*	-	-	-	66	0.37%	0.25
Total fair value	13	21	32	-*	-	-	-	66		0.25**
Net financial instruments										
Exposure to changes in interest rates in the segment	6	9	16	1	5	-	-	37		
Accumulated exposure in the segment	6	15	31	32	37	37	37			

* 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 mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

Table 11 – Exposure of the Company and its consolidated subsidiaries to changes in interest rates as of December 31, 2016 (contd.)
Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets*	130	16	11	-	-	-	13	170	1.10%	0.08
Total fair value	130	16	11	-	-	-	13	170		0.08**
Financial liabilities:										
Financial liabilities*	121	18	6	-	-	4	8	157	2.05%	0.25
Total fair value	121	18	6	-	-	4	8	157		0.25**
Net financial instruments										
Exposure to changes in interest rates in the segment	9	(2)	5	-	-	(4)	5	13		
Accumulated exposure in the segment	9	7	12	12	12	8	13			
Overall exposure to interest rate changes										
Financial assets:										
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.

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

Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Unlinked Israeli currency										
Financial assets:										
Financial assets*	9,724	2,547	2,431	481	8		2	15,193	1.72%	0.16
Derivative financial instruments	5	55						60		0.09
Total fair value	9,729	2,602	2,431	481	8		2	15,253		0.16**
Financial liabilities:										
Financial liabilities*	8,060	2,434	2,155	343	9	1	77	13,079	1.26%	0.16
Derivative financial instruments			55	5				60		0.51
Total fair value	8,060	2,434	2,210	348	9	1	77	13,139		0.16**
Net financial instruments										
Exposure to changes in interest rates in the segment	1,669	168	221	133	(1)	(1)	(75)	2,114		
Accumulated exposure in the segment	1,669	1,837	2,058	2,191	2,190	2,189	2,114			

Reported amounts
In NIS millions

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration
									%	**Years**
Linked Israeli currency										
Financial assets:										
Financial assets*	18	28	41	4	3		-	94	0.25%	0.44
Total fair value	18	28	41	4	3			94		0.44**

Financial liabilities:										
Financial liabilities*	12	20	30					62	0.35%	0.26
Total fair value	12	20	30					62		0.26**
Net financial instruments										
Exposure to changes in interest rates in the segment	6	8	11	4	3			32		
Accumulated exposure in the segment	6	14	25	29	32	32	32			

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

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

General notes:

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

	On demand to one month	One month to three months	Three months to one year	One to three years	Three to five years	More than five years	Without maturity date	Total fair value	Internal rate of return (2)	Effective average duration (3)
									%	**Years**
Foreign currency										
Financial assets:										
Financial assets*	126	15	12				12	165	0.68%	0.09
Total fair value	126	15	12				12	165		0.09**
Financial liabilities:										
Financial liabilities*	112	16	7			3	10	148	1.69%	0.24
Total fair value	112	16	7			3	10	148		0.24**
Net financial instruments										
Exposure to changes in interest rates in the segment	14	(1)	5			(3)	2	17		
Accumulated exposure in the segment	14	13	18	18	18	15	17			
Overall exposure to interest rate changes										
Financial assets:										
Financial assets**	9,868	2,590	2,484	485	11		14	15,452	1.69%	0.16
Derivative financial instruments	5	55						60		0.09
Total fair value	9,873	2,645	2,484	485	11		14	15,512		0.16**

Financial liabilities:										
Financial liabilities**	8,184	2,470	2,192	343	9	4	87	13,289	1.26%	0.16
Derivative financial instruments			55	5				60		0.51
Total fair value	8,184	2,470	2,247	348	9	4	87	13,349		0.16**
Net financial instruments										
Exposure to changes in interest rates in the segment	1,689	175	237	137	2	(4)	(73)	2,163		
Accumulated exposure in the segment	1,689	1,864	2,101	2,238	2,240	2,236	2,163			

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

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

General notes:

(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 mall change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

Liquidity risk

Liquidity risk is risk to the Company's profits and stability, deriving from inability to satisfy its liquidity needs, the ability to finance growth in assets and repay its 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 June 2016. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") and Proper Conduct of Banking Business Directive No. 342 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

This policy is achieved by maintaining routine monitoring of the Company's liquidity position through the use of an internal liquidity risk management model, monitoring of indicators to identify liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current cash flow management. The disposable capital of the Company is used to give credit to cardholders and merchants, and invested in deposits with banks in shekels. Liquidity risks at the Company are managed by the Head of Finance and Administration.

On September 28, 2014, a circular was published by the Banking Supervision Department on the topic of Proper Conduct of Banking Management Directive no. 221 "Liquidity Coverage Ratio", which adopts the Recommendations of the Basel Committee regarding liquidity coverage in the banking system in Israel. 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, loans from a fellow subsidiary and cash flows from operating activities.

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

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

For further details regarding assets and liabilities according to linkage bases and according to maturity dates, see Notes 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 adjusts the level of security and control over access to systems 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 expected regulations and monitoring changes in relation to the reasonableness of the materialization of the risk.

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

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

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

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

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

Legal risk

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

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

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

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

The process of identifying legal risks includes two main aspects:

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

Individual identification of risks when launching a new product or activity

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

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

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

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

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

Reputational risk

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

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

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

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

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

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

Strategic risk

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

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

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

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

The management, via the VP Finance Sub-Division, and its manager, is responsible for assessing the exposure to strategic risks as they have been identified in the risk identification processes and a subject assessment of the impact on the work plan, taking into account, inter alia, 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 12 – Discussion of risk factors

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

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

Accounting policy and critical estimates, controls and procedures

Accounting policy and critical estimates

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

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

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

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

Allowance for Credit Losses

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

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

Contingent Liabilities

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

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

Employee rights

Part of the allowances due to the Company's liabilities in connection with employee-employer relations is based, *inter alia*, on actuarial 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:

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

- The amounts determined according to the opinion of the Company's actuary are not material according to the definitions for the purpose of attaching a valuation opinion.

Disclosure regarding controls and procedures

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

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

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

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company at the end of the period covered by this report. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the

Company have concluded that, as at the end of this period, the controls and procedures regarding disclosure in the Company are effective in order to record, process, summarize, and report the information which the Company is required to disclose in its annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2016, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal controls over financial reporting.

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

Tel Aviv, February 26, 2017

Certification of the Chief Executive Officer

I, Dr. Ron Weksler, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2016 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Ron Weksler

Chief Executive Officer

Tel Aviv, February 26, 2017

Certification of the Chief Accountant

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2016 (hereinafter: the "**Report**").

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

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

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

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

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

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

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

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

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

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

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

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

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 26, 2017

Report of the Board of Directors and Management on Internal 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, 2016, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as at December 31, 2016, the Company's internal controls over financial reporting are effective.

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2016 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 59. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2016.

Ronen Stein	**Dr. Ron Weksler**	**Sigal Barmack**
Chairman of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 26, 2017

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2016

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Somekh Chaikin

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

We have audited the internal controls over financial reporting of Isracard Ltd. and its subsidiaries (hereinafter, jointly: "the Company") as at December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as at December 31, 2016, based on criteria established in the Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the consolidated and separate balance sheets of the Company as at December 31, 2016 and 2015, and for each of the three years ended on December 31, 2016. Our report dated February 26, 2017, included an unqualified opinion on these financial statements, while drawing attention to that stated in Note 23.C.2 regarding regulatory initiatives and Note 23.D regarding petitions for the approval of certain claims as class-action suits against the Company.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 26, 2017

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, 2016 and 2015 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, 2016. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our 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, 2016 and 2015, and the consolidated and separate results of operations, changes in equity, and cash flows, of the Company for each of the three years in the period ended on December 31, 2016, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 23.C.2 regarding regulatory initiatives and Note 23.D regarding petitions for the approval of certain claims as class action suits against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2016, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2017, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 26, 2017

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		
		2016	**2015**	**2014**	**2016**	**2015**	**2014**
Income							
From credit-card transactions	3	1,433	1,359	1,342	1,435	1,361	1,344
Net interest income	4	233	174	144	19	16	33
Other income	5	44	57	77	39	52	73
Total income		**1,710**	**1,590**	**1,563**	**1,493**	**1,429**	**1,450**
Expenses							
In respect of credit losses	12	80	32	19	24	6	7
Operating expenses	6	557	529	481	541	504	463
Sales and marketing expenses	7	265	235	216	258	230	210
General and administrative expenses	8	70	61	63	64	55	57
Payments to banks	23G	399	372	376	399	372	376
Total expenses		**1,371**	**1,229**	**1,155**	**1,286**	**1,167**	**1,113**
Profit before taxes		**339**	**361**	**408**	**207**	**262**	**337**
Provision for taxes on profit	9	111	108	116	65	71	90
Profit after taxes		**228**	**253**	**292**	**142**	**191**	**247**
The Company's share in profits (losses) after the effect of tax of investee companies (in consolidated: associates)		1	(2)	(*-)	87	60	45
Net profit		**229**	**251**	**292**	**229**	**251**	**292**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)		**311**	**342**	**396**	**311**	**342**	**396**
Number of common shares used in calculation		735,124	735,124	735,124	735,124	735,124	735,124

* Amount less than NIS 0.5 million.

Ronen Stein	**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 26, 2017

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		
	2016	2015	2014	2016	2015	2014
Net profit	**229**	**251**	**292**	**229**	**251**	**292**
Other comprehensive income (loss) before taxes:						
Adjustments for presentation of securities available for sale at fair value, net	1	1	(12)	1	1	(12)
Adjustments for liabilities in respect of employee rights (1)	(45)	(3)	-	(45)	(3)	-
Other comprehensive loss before taxes	**(44)**	**(2)**	**(12)**	**(44)**	**(2)**	**(12)**
Effect of related tax	10	1	3	10	1	3
Other comprehensive loss before attribution to non-controlling interests, after taxes	**(34)**	**(1)**	**(9)**	**(34)**	**(1)**	**(9)**
Comprehensive income attributed to shareholders of the Company	**195**	**250**	**283**	**195**	**250**	**283**

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

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

Balance Sheets

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2016	2015	2016	2015
Assets					
Cash on hand and deposits with banks	11	109	69	98	64
Debtors in respect of credit-card activity	12	16,238	15,223	12,791	12,459
Allowance for credit losses		(147)	(112)	(50)	(43)
Debtors in respect of credit-card activity, net		**16,091**	**15,111**	**12,741**	**12,416**
Securities	13	20	19	20	19
Investments in investee companies (in consolidated: in associates)	14	3	1	436	357
Buildings and equipment	15	264	252	180	165
Other assets	16	571	441	4,482	3,794
Total assets		**17,058**	**15,893**	**17,957**	**16,815**
Liabilities					
Credit from banking corporations	17	1,222	323	1,221	323
Creditors in respect of credit-card activity	18	12,089	12,126	13,035	13,115
Other liabilities	19,23	1,082	988	1,036	921
Total liabilities		**14,393**	**13,437**	**15,292**	**14,359**
Contingent liabilities and special commitments	23				
Capital attributed to shareholders of the Company	22	2,665	2,456	2,665	2,456
Total capital		**2,665**	**2,456**	**2,665**	**2,456**
Total liabilities and capital		**17,058**	**15,893**	**17,957**	**16,815**

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, 2013	***-**	**43**	**8**	**51**	**15**	**1,848**	**1,914**
Net profit for the year	-	-	-	-	-	292	292
Adjustments and changes due to:							
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Benefit from share allocation	-	4	-	4	-	-	4
Net other comprehensive loss after effect of tax	-	-	-	-	(9)	-	(9)
Balance as at December 31, 2014	***-**	**47**	**8**	**55**	**6**	**2,140**	**2,201**
Effect of initial implementation of US GAAP on employee rights as at January 1, 2015(1)	-	-	-	-	(1)	-	(1)
Net profit for the year	-	-	-	-	-	251	251
Adjustments and changes due to:							
Benefits received from controlling shareholder	-	-	-*	-*	-	-	-*
Benefit from share allocation	-	5	-	5	-	-	5
Net other comprehensive loss after effect of tax	-	-	-	-	-*	-	-*
Balance as at December 31, 2015	***-**	**52**	**8**	**60**	**5**	**2,391**	**2,456**
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	-	**-**	**-**	**-**	**(34)**	**-**	**(34)**
Balance as at December 31, 2016	***-**	**57**	**17**	**74**	**(29)**	**2,620**	**2,665**

* 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.

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		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Cash flows from operating activity						
Net profit for the year	**229**	**251**	**292**	**229**	**251**	**292**
Adjustments:						
Company's share in undistributed (profits) losses of investee companies (in consolidated: associates)	(1)	2	-*	(87)	(60)	(45)
Depreciation of buildings and equipment	82	87	62	76	80	58
Expenses in respect of credit losses	80	32	19	24	6	7
Profit from sale of securities available for sale	-	-	(12)	-	-	(12)
Impairment of securities available for sale	-	1	2	-	1	2
Profit from realization of investee companies (in consolidated: associates)	-	-	(3)	-	-	(3)
Profit from realization of buildings and equipment	-	(4)	(-*)	-	(4)	(-*)
Deferred taxes, net	(10)	4	8	2	8	8
Change in provisions and liabilities for employee	(1)	(3)	(3)	(1)	(3)	(4)
Revaluation of deposits with banking corporations	-*	1	(1)	-*	1	(1)
Benefit due to transactions with controlling owner	9	-*	-*	9	-*	-*
Benefit due to share allocation	5	5	4	5	5	4
Adjustments in respect of exchange-rate differences	-*	(3)	(4)	-*	(3)	(4)
Changes in current assets						
Placement of deposits with banks	(9)	(10)	(5)	(9)	(10)	(5)
Withdrawal of deposits from banks	13	9	3	13	9	3
Change in credit to cardholders and merchants, net	(832)	(534)	(376)	(213)	290	(27)
Change in receivables in respect of credit-card activity, net	(228)	(514)	(172)	(136)	(390)	(146)
Change in receivables in respect of discounting	(91)	(35)	(55)	-	-	-
Change in other assets, net	(20)	8	(29)	(680)	(1,033)	(510)
Changes in current liabilities						
Short-term credit from banking corporations, net	899	295	10	898	295	10
Change in payables in respect of credit-card activity, net	(37)	111	143	(80)	256	257
Change in other liabilities, net	54	183	56	84	193	55
Net cash from (to) operating activity	**142**	**(114)**	**(61)**	**134**	**(108)**	**(61)**

* 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		
	2016	2015	2014	2016	2015	2014
Cash flows from investment activity						
Proceeds of realization of investments in investee companies (in consolidated: associates)	-	-	5	-	-	5
Acquisition of buildings and equipment	(97)	(72)	(97)	(94)	(67)	(90)
Acquisition of an investee company	(1)	-	-	(1)	-	-
Proceeds of realization of buildings and equipment	-	4	-*	-	4	-
Proceeds of realization of securities available for sale	-	-	16	-	-	16
Net cash to investment activity	**(98)**	**(68)**	**(76)**	**(95)**	**(63)**	**(69)**
Cash flows from financing activity						
Issuance of share capital in a consolidated company	-	-	-	-	(11)	-
Issuance of capital in a subsidiary company	-	-	-	(1)	-	(7)
Net cash to financing activity	**-**	**-**	**-**	**(1)**	**(11)**	**(7)**
Increase (decrease) in cash	**44**	**(182)**	**(137)**	**38**	**(182)**	**(137)**
Balance of cash at beginning of year	**52**	**231**	**364**	**47**	**226**	**359**
Effect of changes in exchange rates on cash balances	**(-*)**	**3**	**4**	**(-*)**	**3**	**4**
Balance of cash at end of year	**96**	**52**	**231**	**85**	**47**	**226**
Interest and taxes paid and/or received						
Interest received	242	176	143	13	12	18
Interest paid	8	6	5	8	6	5
Dividends received	1	4	2	1	4	2
Taxes on income paid	148	126	111	84	87	90
Taxes on income received	10	21	1	10	21	-

Appendix A						
Activity in assets and liabilities not involving cash flows						
Acquisition of buildings and equipment against liabilities to suppliers	(3)	(2)	(9)	(3)	(3)	(8)
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 clearing Isracard, MasterCard, and Visa brand credit-card transactions and in financing activity, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd. and of its sister company Poalim Express Ltd. The financial statements as at December 31, 2016, include those of the Company and of its subsidiaries (hereinafter: the "**Group**"), as well as the Group's interests in joint operations and in associates.

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

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

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

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

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

A. Definitions (cont.)

1. **The Company** – Isracard Ltd.
2. **The Group** – The Company and its consolidated companies.
3. **The Parent Company** – Bank Hapoalim B.M.
4. **Subsidiaries/consolidated companies** – Companies, including partnerships, 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 No. 23 and 36 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.

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

B. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and 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 US GAAP.

2. Functional Currency and Presentation Currency

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

4. Use of Estimates

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

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

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

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

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

a. Changes in estimates

In 2016, the Company updated employee benefits liabilities measured on an actuarial basis, in respect of the outline of an efficiency drive, following a letter from the Banking Supervision Department regarding "Increasing the efficiency of the banking system in Israel" and in relation to the employee turnover rate. See also Note 20 below for additional details.

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

In the periods commencing January 1, 2016, the Company has implemented the accounting standards and new directives set out below:

(1) Reporting by banking corporations and credit card companies in accordance with generally accepted accounting principles in the United States on the subjects of business combinations, consolidation of financial statements and investments in investee companies.

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

(3) Troubled debt restructuring.

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

1. Reporting by banking corporations and credit card companies in accordance with generally accepted accounting principles in the United States on the subject of business combinations, consolidation of financial statements and investments in investee companies.

On June 10, 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 regarding business combinations, consolidation of financial statements and investments in investee companies. Pursuant to the circular, generally accepted accounting principles in the United States on these issues are to be implemented, as set forth below:

- Presentation, measurement and disclosure principles that have been set out in the Topic 805 Directive in the Codification regarding "business combinations".

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.)

- Topic 810 provisions on the subject of "consolidation".

- Generally accepted accounting principles for banks in the United States on the subject of investee companies, including presentation, measurement and disclosure principles, as well as the directives relating to impairment in value that were set out in the Topic 323 provisions in the codification regarding "Investments – Equity Method and Joint Ventures".

The provisions that have been determined in the circular are effective as from January 1, 2016 and thereafter. The implementation of the directives has not had a significant impact on the financial statements.

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

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

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

3. Troubled debt restructuring

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

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

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

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

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

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

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

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

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

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

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

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

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

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

2. Basis for Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained to the date of cessation of control. Control is the power to determine the financial and operational policy of a company in order to derive benefit from its operations. Control exists when the Company is exposed to or has a right to variable returns arising from its involvement in an acquiree, and has the ability to influence such returns through its influence over the acquiree.

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

Joint Operations

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

Investments in 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 for the first time at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share in income and expenses, profit or loss, and other comprehensive income of investee entities dealt with on equity-basis, after the necessary adjustments to the accounting policy of the Group, from the date on which the material influence exists, to the date when the material influence ceases to exist. It is clarified that the Company does not adjust accounting policies implemented by non-banking associate companies. Where the Group's share of losses exceeds the value of the Group's rights in a company treated at equity, the book value of those rights, including any long-term investment that forms part of the investment in the investee, is written down to zero. In cases in which the Group's share in a long-term investment forms part of the investment in an investee is different from its share in the investee's equity, the Group continues to recognize its share of the investee's losses, after zeroing the capital investment, in accordance with its economic entitlement in the long-term investment after the zeroing of such rights.

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

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

2. Basis for Consolidation (cont.)

Loss of Material Influence

The Group discontinues the use of the equity method from the date of the loss of its material influence, and treats the remaining investment as a financial asset. At that time, the fair value of the remaining investment in the associate company is measured and a gain or loss is recognized under "non-interest financial income, net".

Inter-Company Transactions

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

3. Basis for Recognition of Revenues and Expenses

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

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

Pursuant to the directive of the Banking Supervision Department concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, beginning on January 1, 2011, the Company has implemented the 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. 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.

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

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

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

In addition, from time to time the Banking Supervision Department revises the Public Reporting Directives and the Frequently Asked Questions file, which provide guidance regarding the manner of the implementation of directives on the subject of impaired debts and the allowance for credit losses, with the objective of integrating the directives applying to banks in the United States on this issue, including directives issued by the supervisory agencies in the United States. As from 2016, inter alia, the directives relating to the treatment of the troubled debt restructuring and certain directives relating to the manner of the testing of debts have been revised.

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Identification and Classification of Impaired Debts

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

In any case, debt is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. For that purpose, the Company monitors the days of arrears, with reference to the contractual repayment terms. A debt is in arrears when the principal or interest in respect of the debt has not been paid, after the scheduled payment date.

Once the 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).

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

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

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

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

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

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

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

Troubled Debt Restructuring

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

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

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

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

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

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

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

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

Charge-Offs

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

Disclosure Requirements

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

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

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.

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

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

5. Securities (Cont.)

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.

6. Derivative Financial Instruments

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

7. Establishing the Fair Value of Financial Instruments

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

Fair value is defined as the price that would be obtained from the sale of an asset, or the price that would be paid to extinguish a liability, in an ordinary transaction between market participants, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs.

Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

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

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

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

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

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

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

Securities

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

Derivative Financial Instruments

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

Additional Non-Derivative Financial Instruments

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

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

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

9. Offsetting Assets and Liabilities

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

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

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

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

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

11. Fixed Assets

Recognition and Measurement

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

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

Subsequent Costs

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

Depreciation

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

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

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

11. Fixed Assets (Cont.)

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

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

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

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

12. Intangible Assets

Software Costs

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

The capitalization of internal-use software development costs only commences where: the first stage of a project has been completed; management having the appropriate authority has approved and committed to financing the software development project directly or indirectly and it is expected that the development will be completed and that future economic benefits will be derived from the software. When software is developed or obtained for internal use, the following costs are capitalized: direct material and services costs that have been consumed and salary costs for employees who are directly connected to the development activities or the implementation of the software. Other costs in respect of development activities and research costs are allocated to profit and loss when they arise. In subsequent periods, capitalized development costs are measured at cost, with the deduction of amortization and accrued losses from impairment.

Subsequent Costs

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

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

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

12. Intangible Assets (cont.)

Amortization

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

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

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

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

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

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.

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

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

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

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 rent income or for equity appreciation or both, and not for the purpose of:

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

(b) Sale during the ordinary course of business.

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

15. Impairment of Non-Financial Assets

Timing of Examination of Impairment

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

Measurement of Recoverable Amount

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

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

Investments in 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. Non-temporary impairment is allocated firstly to goodwill, which forms part of the investment, until it is reduced to zero. The remaining amount is allocated proportionately to the associate company's non-current assets and thereafter to the rest of its assets.

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 reached 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, for payments of retirement benefits to employees, which include payments under defined benefit plans in respect of pensions (such as pension payments, severance pay and retirement), payments under other plans after retirement (such as holiday gifts and other welfare and health contributions paid to pensioners or on their behalf). Also, in accordance with the directives of the Banking Supervision Department, a company that expects a group of employees will be paid benefits beyond the contractual terms, 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 recognizes the net pension cost for a period in accordance with the contribution required for that period. The Company's obligations for payment of compensation, pension and other benefits other than in accordance with Section 14 of the Severance Pay Law, are accounted for in defined benefit plans calculated on an actuarial basis taking into account probabilities based on past experience. The discount rate is calculated based on the government bond yield in Israel plus the average margin on corporate bonds rated AA (International) or above at the reporting date. For practical reasons, it was determined that the margin will be determined by the difference between yield rates to maturity, by maturity period, of corporate bonds rated AA or above in the United States, and yield rates to maturity, for the same maturity period, of US government bonds, at the reporting date. The mortality rate is based on the current directives of the Commissioner of Capital Markets, Insurance and Savings as outlined in Circular 2013-1-2 (New Tables for Insurance Companies). The rate of future salary increases is estimated by Management.

The service cost, interest cost, yield on plan assets, amortization of the net actuarial gain or loss and amortization of the cost or credit for past service are reflected in profit 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, which do not derive from a change in the discount rate, are included in accumulated other comprehensive income and are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits from the plan.

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

D. Accounting Policy 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 period 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. For further information regarding employee rights, including the non-recurring efficiency program, see Note 20 below.

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

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

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is charged as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is 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.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.

19. Contingent Liabilities

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

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

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

19. Contingent Liabilities (Cont.)

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

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

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

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

20. Expenses for Taxes on Income

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

Current Taxes

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

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

Offsetting Current Tax Assets and Liabilities

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

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

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

20. Expenses for Taxes on Income (cont.)

Deferred Taxes

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

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

Offsetting Deferred Tax Assets and Liabilities

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

Uncertain Tax Positions

The Company recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Tax positions that are recognized are measured at the maximum amount whose probability of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which the changes in circumstances affecting the company's position occurred.

21. Capitalization of Borrowing Costs

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

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

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

22. Earnings per Share

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

23. Statement of Cash Flows

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

24. 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.

25. 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".

26. Transactions with Controlling Interests

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

Assets and liabilities regarding which a transaction has been executed with a controlling 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.

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

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

26. Transactions with Controlling Interests (Cont.)

Loans, Including Deposits

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

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Company at their 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 2015, 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.

At the time of the initial recognition, it is possible to select an alternative of retrospective implementation, whilst restating the comparative numbers or an alternative of prospective implementation while reflecting the cumulative impact under 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.

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

Note 2 – 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. Adoption of generally accepted accounting principles in the United Stated on the subject of taxes on income

On October 22, 2015, a circular was published on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States on the subject of taxes on income." Pursuant to the circular, there is a requirement to implement generally accepted accounting principles in the United States on the subject of taxes on income and inter alia, the presentation, measurement and disclosure principles in accordance with Topic 740 in the Codification regarding "Topics in foreign currency – taxes on income". These directives will replace the directives existing in the Public Reporting Directives based primarily on the International Standard on the subject of taxes on income (IAS 12).

In accordance with the new standard a deferred tax liability is to be recognized in respect of subsidiary companies, unless the tax laws permit the recovery of the investment under a tax exemption (for example by means of a dissolution or a statutory merger with a tax exemption) without any significant cost, and the parent company expects to execute the recovery in this way at the end of the day (ability and intention).

On October 13, 2016, a circular was published on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States". The circular updates the manner of the initial implementation of the new directive that were set in the circular of October 22, 2015. Pursuant to the circular, there is a requirement to implement the new principles as from January 1, 2017. At the time of the initial implementation, there is a requirement to operate in accordance with the transition provisions that were set in the US standards, including the retrospective correction of the comparative figures, if necessary. The directives, which have been determined pursuant to the circular are effective as from January 1, 2017 and thereafter. In addition, timing differences in respect of previous periods will continue to be treated in accordance with the directives that were effective up to December 31, 2016. In the Company's assessment, the implementation of the circular is not expected to have a significant impact on the financial statements.

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

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

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

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.)

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

The provisions, which have been determined pursuant to the circular are effective as from January 1, 2017 and thereafter. At the time of initial implementation, it is required to act in accordance with the transition provisions that have been set on those topics in the US standards, mutatis mutandis, including retrospective amendment of comparative figures if this is required under the US standards on those issues. It should be emphasized that when implementing the directives in Topic 830 of the Codification regarding "foreign currency", in reporting periods up to January 1, 2019, banks and credit card companies are not to include the 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.

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

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

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

On March 30, 2016, the Financial Accounting Standards Board (hereinafter: The **"FASB**") published Standard Update number 2016 – 09 to the Codification, which constitutes a revision to the provisions of ASC 718 on the subject of "Share-based payment" (hereinafter: "**The revision**"). The substance of the revision is to simplify various aspects of the accounting treatment of share-based payments. This change is required to be implemented prospectively. In the Company's assessment, the impact of the adoption of the abovementioned directives on the financial statements is not expected to be material.

5. New US standard on the subject of the measurement of financial instruments

On January 5, 2016, the Financial Accounting Standards Board (hereinafter: The **"FASB**") published a standard on the subject of the recognition and measurement of financial instruments – ASU 2016-01. The new standard changes the accounting treatment of investments in shares in the balance sheet and in the statement of profit and loss and it also changes the manner of the recognition of changes in the fair value of liabilities that are treated under the fair value alternative.

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.)

5. New US standard on the subject of the measurement of financial instruments

The main points of the new standard are, inter alia, investments in capital instruments having a readily determinable fair value – entities are to measure the investments in these financial instruments at fair value and to recognize changes in fair value in profit and loss. There is no possibility of recognizing changes in other comprehensive income. The implementation of the new standard will apply in annual periods commencing after December 15, 2017, including interim periods in those annual periods. The standard is to be implemented retrospectively while recording the cumulative impact against retained earnings at the beginning of the reporting period in which the standard is initially implemented. The directives regarding investments in capital instruments that do not have a readily available fair value are to be implemented prospectively.

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

On November 1, 2016, a circular was published on the subject of reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States.

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

- 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".

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

At the time of the initial implementation, a banking corporation is required to act in accordance with the transition provisions that have been set on those issues in the US standards, mutatis mutandis, including the retrospective correction of comparative figures if this is required in accordance with the US standards on those issues.

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

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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.)

7. 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.

In accordance with the update, public entities are required to implement the new US principles as from interim periods and annual periods commencing after December 15, 2017. The earlier implementation of the new principles, including in interim periods, is permitted.

8. New US standard on the subject of leases

On February 25, 2016, the US Financial Accounting Standards Board (the "FASB") published a new standard on the subject of leases (ASU 2016-02). The new standard introduces new era in which lessees will be recognized in the balance sheet for all leases whose period exceeds 12 months, without dependency on the classification of the lease.

Accordingly, in accordance with the new standard, the distinction of whether a lease is to be recognized on or off the balance sheet is dependent upon the preliminary question of whether it is a leasing arrangement and not a question of the classification of the lease (as operating or as financing). The tests for identifying leasing in the new standard are not identical to the currently existing terms in U.S. GAAP. From the perspective of the results, there is not expected to be a difference in relation to the current situation, which is a result of the manner of the spreading of the rental expenses and depreciation of balance sheet items.

Furthermore, the new standard replaces the existing provisions in sale- leaseback transactions and it sets a new model that relates both to lessors and also to lessees.

In accordance with the update, it is required to implement the new US principles as from interim periods and annual periods commencing after December 15, 2018.

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		
	2016	2015	2014	2016	2015	2014
Income from merchants						
Merchant fees	1,091	1,072	1,079	1,093	1,074	1,082
Other income	4	4	10	4	4	10
Total gross income from merchants	**1,095**	**1,076**	**1,089**	**1,097**	**1,078**	**1,092**
Less fees to other issuers	(262)	(240)	(220)	(262)	(240)	(220)
Total net income from merchants	**833**	**836**	**869**	**835**	**838**	**872**
Income in respect of credit-card holders						
Issuer fees	282	239	203	282	239	203
Service fees	214	213	227	214	213	226
Fees from transactions abroad	104	71	43	104	71	43
Total income in respect of credit-card holders	**600**	**523**	**473**	**600**	**523**	**472**
Total income from credit-card transactions	**1,433**	**1,359**	**1,342**	**1,435**	**1,361**	**1,344**

Note 4 – Net Interest Income

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
A. Interest income						
From credit to cardholders	151	101	67	2	2	2
From credit to merchants	77	67	65	11	9	12
From credit to others	-*	-*	-*	-	-	-
From deposits with banks	-*	-*	3	-*	-*	3
From other assets	14	12	10	15	11	17
Total interest income	**242**	**180**	**145**	**28**	**22**	**34**
B. Interest expenses						
To banking corporations	9	6	-*	9	6	-*
On other liabilities	-*	-*	1	-*	-*	1
Total interest expenses	**9**	**6**	**1**	**9**	**6**	**1**
Total net interest income	**233**	**174**	**144**	**19**	**16**	**33**

* 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		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
From rental of assets	3	4	4	-	-	-
Operating fees from related parties	27	23	20	29	25	21
Non-interest financing (expenses) income, net (1)	(4)	13	37	(4)	13	37
Others	18	17	16	14	14	15
Total other income	**44**	**57**	**77**	**39**	**52**	**73**

B. Non-Interest Financing Income, Net

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Net exchange-rate differences	(5)	11	22	(5)	11	22
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)	10	-	(2)	10
Profit from sale of shares of investee companies (in consolidated – associates)	-	-	3	-	-	3
Dividend from shares available for sale	1	4	2	1	4	2
Total profits from investment in shares	**1**	**2**	**15**	**1**	**2**	**15**
Total non-interest financing (expenses) income, net	**(4)**	**13**	**37**	**(4)**	**13**	**37**

* Amount less than NIS 0.5 million.

(1) See Note 5B.

Note 6 – Operating Expenses

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Wages and related expenses*	190	187	182	182	178	175
Data processing and computer maintenance	32	32	29	29	30	28
Automatic Bank Services (ABS)	23	22	20	23	21	19
Payments to international credit card organizations	68	59	52	68	59	52
Amortization and depreciation	82	87	62	76	80	58
Communications	7	7	9	6	7	9
Production and delivery	69	65	69	69	65	69
Damages from abuse of credit cards	4	6	7	4	6	7
Rent and building maintenance	33	30	30	39	37	36
Bank commissions	8	8	7	8	7	6
Others	41	26	14	37	14	4
Total operating expenses	**557**	**529**	**481**	**541**	**504**	**463**
* Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	1	1	1	1	1	1

Note 7 – Sales and Marketing Expenses

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Wages and related expenses*	69	64	61	64	59	56
Advertising	30	23	30	29	23	30
Customer retention and recruitment*	50	61(1)	58(1)	50	61(1)	58(1)
Gift campaigns for credit-card holders	12	8(1)	3(1)	12	8(1)	3(1)
Vehicle maintenance	5	6	6	5	5	6
Consumer Club management fees	90	68	52	90	68	52
Others	9	5	6	8	6	5
Total sales and marketing expenses	**265**	**235**	**216**	**258**	**230**	**210**
* Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	5	5	7	5	5	7

(1) Reclassified.

Note 8 – General and Administrative Expenses

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Wages and related expenses**	34	29	27	31	26	24
Professional services	18	14	17	16	12	15
Insurance	5	5	5	5	5	5
Others	13	13	14	12	12	13
Total general and administrative expenses	**70**	**61**	**63**	**64**	**55**	**57**
** 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		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Current taxes for the tax year	121	104	110	63	63	85
Deferred taxes for the tax year	(10)	4	5	2	8	4
Taxes for previous years	-*	-(*)	1	-*	(-*)	1
Provision for taxes on income	**111**	**108**	**116**	**65**	**71**	**90**

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		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Tax rate applicable to the Company in Israel	25%	26.5%	26.5%	25%	26.5%	26.5%
Tax amount based on statutory tax rate	85	96	108	52	69	89
Tax increment (saving) in respect of:						
Amortization differences, amortization adjustment, and capital gains	(-*)	-*	(-*)	(-*)	(-*)	(-*)
Unrecognized expenses	6	3	2	6	3	2
Exempt expenses	(1)	(1)	(2)	(1)	(1)	(2)
Benefit from loss and tax credit from a previous period used to reduce current taxes	(2)	(1)	(1)	-	-	-
Benefit from temporary differences for a previous period used to reduce deferred taxes	-	-	(-*)	-*	-	(-*)
Change in balance of deferred taxes due to changes in tax rates	12	-*	-*	8	-	-*
Tax expenses for previous years	-*	(-*)	1	-*	(-*)	1
Timing differences that do not carry deferred taxes	(-*)	2	2	-	-*	-
Difference in tax rate on financial institutions	11	9	6	-	-	-
Provision for taxes on income	**111**	**108**	**116**	**65**	**71**	**90**

* Amount less than NIS 0.5 million.

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.

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

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

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015	2016	2015
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	80	68	30.0	33.0	-	-	-	-
From provision for vacations, bonuses, and options	13	12	24.0	26.5	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	28	21	23.0	26.5	-	-	-	-
From adjustment of depreciable non-monetary assets	1	4	23.0	26.5	7	8	23.0	26.5
From adjustments of securities and derivatives	(3)	(2)	24.0	26.5	-	-	-	-
Other	3	-*	23.0	26.5	-	-	-	-
Total	**122**	**103**			**7**	**8**		

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

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015	2016	2015
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	26	26	23.0	26.5	-	-	-	-
From provision for vacations, bonuses, and options	13	11	24.0	26.5	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	28	21	23.0	26.5	-	-	-	-
From adjustments of depreciable non-monetary assets	1	4	23.0	26.5	-	-	-	-
From adjustments of securities and derivatives	(3)	(2)	24.0	26.5	-	-	-	-
Other	3	-*	23.0	26.5	-	-	-	-
Total	**68**	**60**			**-**	**-**		

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

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

Cumulative amount of taxes on items allocated directly to capital:

	December 31	
	2016	**2015**
	In NIS millions	
Changes in deferred taxes, net	10	1

6. Changes in tax rates

A. Corporation tax

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

2014: 26.5%

2015: 26.5%

2016: 25%

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

Furthermore, on December 22, 2016, the Knesset Plenum passed the Economic Efficiency Law (Amendments to legislation 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 25%, the deferred tax balances as of January 4, 2016 have been calculated in accordance with the new tax rate as determined in the Amendment to the Income Tax Ordinance Law, in accordance with the tax rate that is expected to apply at the time of the reversal.

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

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

6. Changes in tax rates (cont.)

A. Corporation tax (cont.)

The impact of the changes that are detailed above on the financial statements as of December 31, 2016, is expressed in a reduction of NIS 1 million in deferred tax liabilities balances and a reduction of NIS 13 million in deferred tax assets balances, against which deferred tax expenses have been recognized.

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

B. Update of Value Added Tax and Profit Tax

The Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2013, was published in the Official Gazette on June 2, 2013. The amendment adjusted the rate of Profit Tax applicable to financial institutions to 18% beginning June 2, 2013. Pursuant to this change, the statutory tax rate applicable to financial institutions rose to 36.21% in 2013, and in 2014 and thereafter the rate rose to 37.71%.

On October 12, 2015, the Knesset plenum approved the Value Added Tax Order (Tax Rate for Non-Profits and Financial Institutions) (Amendment), 2015, which 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, and will be lowered 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 December 31, 2013	**15**	**-**	**15**
Net change during the period	(9)	-	(9)
Balance as at December 31, 2014	**6**	**-**	**6**
Net change during the period	1	(2)	(1)
Balance as at December 31, 2015	**7**	**(2)**	**5**
Net change during the period	**1**	**(35)**	**(34)**
Balance as at December 31, 2016	**8**	**(37)**	**(29)**

B. Changes in components of cumulative other comprehensive income (loss), before and after tax

	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 period	**1**	(-*)	**1**
Employee rights			
Net actuarial loss in the period	(45)	10	(35)
Net change during the period	(45)	10	(35)
Total net change during the period	**(44)**	**10**	**(34)**

* 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, 2015		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Adjustments for presentation of securities available for sale at fair value:			
Net unrealized gains (losses) from adjustments to fair value	1	(-*)	1
Total net change during the period	**1**	(-*)	**1**
Employee rights (1)			
Net actuarial loss in the period	(3)	1	(2)
Net change during the period	(3)	1	(2)
Total net change during the period	**(2)**	**1**	**(1)**

	For the year ended December 31, 2014		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to shareholders of the Company			
Adjustments for presentation of securities available for sale at fair value:			
Net unrealized gains (losses) from adjustments to fair value	(-*)	-*	(-*)
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(12)	3	(9)
Total net change during the period	**(12)**	**3**	**(9)**

* 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	
	2016	**2015**	**2016**	**2015**
Cash on hand(1)	91	48	85	47
Deposits with banks for original terms of up to 3 months(1)	5	4	-*	-*
Total cash and cash equivalents	**96**	**52**	**85**	**47**
Other deposits with banks(1)	13	17	13	17
Total	**109**	**69**	**98**	**64**

* 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, 2016					
	Average annual interest rate 2016		Consolidated		The Company	
	On daily balance	On transactions in the last month	December 31		December 31	
			2016	2015	2016	2015
	%	%	In NIS millions		In NIS millions	
Credit risk not under bank guarantee						
Individuals (1)			**3,728**	**3,103**	**1,650**	**1,595**
Of which: debtors in respect of credit cards (2)	-	-	1,650	1,595	1,650	1,595
Of which: credit (2)(3)	8.1	7.2	2,078	1,508	-	-
Commercial			**1,242**	**994**	**539**	**322**
Of which: debtors in respect of credit cards (2)	-	-	168	165	168	165
Of which: credit (2)(3)(4)	4.5	3.0	1,074	829	371	157
Total credit risk not under bank guarantee			**4,970**	**4,097**	**2,189**	**1,917**
Credit risk under bank and other guarantee						
Debtors in respect of credit cards	-	-	9,719	9,805	9,719	9,805
Credit	6.4	6.4	74	75	-	-
Companies and international credit-card organizations			1,432	1,212	858	717
Income receivable			36	30	18	16
Others			7	4	7	4
Total debtors in respect of credit-card activity			**16,238**	**15,223**	**12,791**	**12,459**

* 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 166 million consolidated (December 31, 2015 – NIS 110 million).

(4) Of which: credit to merchants in the amount of NIS 873 million consolidated (December 31, 2015 – NIS 679 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 362 million consolidated (December 31, 2015 – NIS 150 million).
Of which: credit to merchants in the amount of NIS 371 million in the Company (December 31, 2015 – NIS 157 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 362 million in the Company (December 31, 2015 – NIS 150 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, 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**	**59**	**3**	**22**	**12**	**133**
Expenses in respect of credit losses	17	51	-*	8	4	80
Charge-offs	(16)	(28)	(-*)	(5)	(2)	(51)
Recovery of debts charged off in previous years	4	1	-*	-[(4)]	-*	5
Net charge-offs	**(12)**	**(27)**	**(-*)**	**(5)**	**(2)**	**(46)**
Balance of allowance for credit losses as at December 31, 2016**	**42**	**83**	**3**	**25**	**14**	**167**
**** 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	-	-	-	-	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]	
	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	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.)

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[(3)]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[(2)]	Debtors in respect of credit cards	Credit[(2)]		
Balance of allowance for credit losses as at December 31, 2013	33	36	4	25	11	109
Expenses (income) in respect of credit losses	5	13	(1)	2	-*	19
Charge-offs	(8)	(6)	(-*)	(6)	(1)	(21)
Recovery of debts charged off in previous years	7	3	-*	-[(4)]	-*	10
Net charge-offs	**(1)**	**(3)**	**(-*)**	**(6)**	**(1)**	**(11)**
Balance of allowance for credit losses as at December 31, 2014**	**37**	**46**	**3**	**21**	**10**	**117**
**** Of which:**						
In respect of off-balance-sheet credit instruments	4	5	-*	5	2	16
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

* 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, 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]	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	-	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.)

	For the year ended December 31, 2014					
	Credit risk not under bank guarantee				Credit risk under bank and other guarantee[3]	Total
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]		
Balance of allowance for credit losses as at December 31, 2013	33	-	4	4	8	49
Expenses (income) in respect of credit losses	5	-	(1)	3	(-*)	7
Charge-offs	(8)	-	(-*)	(2)	(1)	(11)
Recovery of debts charged off in previous years	7	-	-*	-[4]	-*	7
Net charge-offs	**(1)**	**-**	**(-*)**	**(2)**	**(1)**	**(4)**
Balance of allowance for credit losses as at December 31, 2014**	**37**	**-**	**3**	**5**	**7**	**52**
**** Of which:**						
In respect of off-balance-sheet credit instruments	4	-	-*	1	2	7
In respect of bank deposits	-	-	-	-	-*	-*
In respect of debtors in respect of credit cards under bank guarantee	-	-	-	-	3	3

* 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, 2016					
	Allowance for credit losses					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]	Credit risk under bank and other guarantee [3]	Total
Recorded debt balance of debts						
Examined on an individual basis	2	1	40	579	697	1,319
Examined on a collective basis	1,648	2,077	128	495	11,030	15,378
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**

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, 2015					
	Allowance for credit losses					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit(2)	Debtors in respect of credit cards	Credit(2)	Credit risk under bank and other guarantee (3)	Total
Recorded debt balance of debts						
Examined on an individual basis	1	-*	40	468	639	1,148
Examined on a collective basis	1,594	1,508	125	361	10,821	14,409
Total debts	**1,595**	**1,508**	**165**	**829**	**11,460**	**15,557**
Allowance for credit losses in respect of debts						
Examined on an individual basis	1	-*	-*	11	5	17
Examined on a collective basis	31	52	3	8	5	99
Total allowance for credit losses	**32**	**52**	**3**	**19**	**10**	**116**

* Amount less than NIS 0.5 million.

(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, 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**

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, 2015					
	Credit risk not under bank guarantee					
	Private		Commercial			
	Debtors in respect of credit cards	Credit[2]	Debtors in respect of credit cards	Credit[2]	Credit risk under bank and other guarantee[3]	Total
Recorded debt balance of debts						
Examined on an individual basis	1	-	40	112	8	161
Examined on a collective basis	1,594	-	125	45	10,610	12,374
Total debts	**1,595**	**-**	**165**	**157**	**10,618**	**12,535**
Allowance for credit losses in respect of debts						
Examined on an individual basis	1	-	-*	3	-*	4
Examined on a collective basis	31	-	3	1	4	39
Total allowance for credit losses	**32**	**-**	**3**	**4**	**4**	**43**

* 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, 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	-	10
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**	**-**	**1**
Total	**16,451 [(6)]**	**219**	**27**	**16,697**	**-**	**21**

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, 2015					
		Problematic[(2)]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired [(3)]	Total	In arrears of 90 days or more	In arrears of 30 to 89 days [(4)]
Debts not under bank guarantee						
Private individuals						
Debtors in respect of credit cards	1,565	26	4	1,595	-	4
Credit	1,400	104	4	1,508	-	5
Commercial						
Debtors in respect of credit cards	163	2	-*	165	-	1
Credit	800	23	6	829	-	2
Debts under bank and other guarantee [(5)]	**11,459**	**-**	**1**	**11,460**	**-**	**-**
Total	**15,387 [(6)]**	**155**	**15**	**15,557**	**-**	**12**

* Amount less than NIS 0.5 million.

(1) Debtors in respect of credit-card activity, deposits with banks, and other debts.

(2) Impaired, substandard and debts under special supervision.

(3) Impaired debts not accruing interest income. For information on certain impaired debts that underwent troubled debt restructuring, see Note 12.C.2,C below.

(4) Debts in arrears of 30 to 89 days have been classified as unimpaired problematic debts not accruing interest income.

(5) Holders of credit cards under bank guarantees, deposits with banks, companies and international credit-card organizations, income receivable, and other debts.

(6) Of which: credit risk in the amount of NIS 16,360 as of December 31, 2016 and in the amount of NIS 15,307 million as of December 31, 2015, 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, 2016				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	2	2	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**

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, 2015				
	Balance (2) of impaired debts for which an individual allowance exists (3)	Balance of individual allowance (3)	Balance (2) of impaired debts for which no individual allowance exists	Total balance (2) of impaired debts	Contractual balance of principal of impaired debts
Debts not under bank guarantee					
Private individuals					
Debtors in respect of credit cards	1	1	3	4	4
Credit	-*	-*	4	4	4
Commercial					
Debtors in respect of credit cards	-*	-*	-*	-*	-*
Credit	5	5	1	6	6
Debts under bank and other guarantee (4)	**1**	**1**	**-**	**1**	**1**
Total**	**7**	**7**	**8**	**15**	**15**
** Of which:					
Debts in troubled debt restructuring	**1**	**1**	**-**	**1**	**1**

* 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		
	2016	**2015**	**2014**
Debts not under bank guarantee			
Private individuals			
Debtors in respect of credit cards	1	3	5
Credit	1	1	2
Commercial			
Debtors in respect of credit cards	-*	-*	1
Credit	**6**	2	2
Debts under bank and other guarantee (4)	**1**	**-***	**-**
Total	9	**6**	**10**

See notes below.

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	
	2016	2015
Debts not under bank guarantee		
Private individuals		
Debtors in respect of credit cards	2	1
Credit	1	-*
Commercial		
Debtors in respect of credit cards	-*	-*
Credit	-*	-
Debts under bank and other guarantee (4)	**-**	**-**
Total	**3**	**1**

* 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, 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**

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, 2014				
	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	1,418	7	7	195	2
Credit	404	2	2	56	1
Commercial					
Debtors in respect of credit cards	89	1	1	22	-*
Credit	52	-*	-*	5	-*
Debts under bank and other guarantee (3)	-	-	-	-	-
Total	**1,963**	**10**	**10**	**278**	**3**

* Amount less than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent 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, 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 12A – Debtors [(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk[(1)(3)] by Size of Borrowers' Indebtedness

Consolidated

	December 31, 2015			
		Debtors in respect of credit-card activity		
	Number of borrowers (2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk (3)
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,305,682	1,782	1,690	500
Borrower balances over 5 and up to 10	463,883	2,451	2,265	840
Borrower balances over 10 and up to 15	256,588	1,875	1,605	1,239
Borrower balances over 15 and up to 20	156,349	1,430	1,105	1,268
Borrower balances over 20 and up to 30	172,046	1,994	1,367	2,198
Borrower balances over 30 and up to 40	81,568	1,371	714	1,414
Borrower balances over 40 and up to 80	73,733	1,965	832	1,711
Borrower balances over 80 and up to 150	5,371	334	171	191
Borrower balances over 150 and up to 300	824	141	54	23
Borrower balances over 300 and up to 600	265	93	34	18
Borrower balances over 600 and up to 1,200	92	55	19	19
Borrower balances over 1,200 and up to 2,000	39	53	7	7
Borrower balances over 2,000 and up to 4,000	40	88	11	28
Borrower balances over 4,000 and up to 8,000	16	67	6	20
Borrower balances over 8,000 and up to 20,000	14	102	-	61
Borrower balances over 20,000 and up to 40,000	6	100	-	32
Borrower balances over 40,000 and up to 200,000	5	110	-	141
Borrower balances over 200,000 and up to 400,000	1	222	-	-
Borrower balances over 400,000 and up to 800,000	2	956	-	-
Total	**2,516,524**	**15,189**	**9,880**	**9,710**
Income receivable and others	-	34	-	-
Total	**2,516,524**	**15,223**	**9,880**	**9,710**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of single borrowers and groups of borrowers.
(2) Number of borrowers by total debtors and off-balance-sheet credit risk.
(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

Note 13 – Securities

In NIS millions

	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**

	December 31, 2015			
	Balance-sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income***	Fair value**
Securities available for sale:				
Shares of others*	19	9	10	19
Total securities available for sale	**19**	**9**	**10**	**19**

* Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of approximately NIS 7 million as at December 31, 2016 (December 31, 2015 - 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, 2016			December 31, 2015		
	Associate companies	Consolidated companies	Total	Associate companies	Consolidated companies	Total
Investments in shares by equity method	3	-	3	1	-	1
Other investments						
Shareholders' loans	-	-	-	-*	-	-*
Total investments	**3**	**-**	**3**	**1**	**-**	**1**
Of which: profits (losses) accrued since acquisition date	3	-	3	1	-	1
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 by equity method	3	433	436	1	356	357
Total investments	**3**	**433**	**436**	**1**	**356**	**357**
Of which: profits (losses) accrued since acquisition date	3	371	374	1	311	312

* Amount less than NIS 0.5 million.

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					
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
The Company's share in profits before the effect of taxes of investee companies (consolidated: associate)	2	-*	(-*)	134	97	71
Losses from impairment of investee companies (consolidated: associate)	(1)	(2)	-	(1)	-	-
Provision for taxes:						
Current taxes	-	-	*-	58	41	25
Deferred taxes	-	-	*-	(12)	(4)	1
Total provision for taxes	**-**	**-**	***-**	**46**	**37**	**26**
The Company's share in profits (losses) after the effect of taxes of investee companies (consolidated: associate)	**1**	**(2)**	**(-*)**	**87**	**60**	**45**

* 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	In percent						In NIS millions							
Isracard Mimun Ltd. Activity: Granting credit	100%	100%	100%	100%	219	156	-	-	-	-	63	51	-	-
Isracard Nechasim Ltd. Activity: Property company	100%	100%	100%	100%	69	71	10	21	-	-	8	6	-	-
Global Factoring Ltd. Activity: Debt discounting	100%	100%	100%	100%	21	14	-	-	-	-	7	5	-	-
Europay (Eurocard) Israel Ltd. (4) Activity: Banking auxiliary corporation	100%	100%	100%	100%	6	5	-	-	-	-	-	(9)	-	-
Tzameret Mimunim Ltd. Activity: Credit-card transaction discounting	100%	100%	100%	100%	118(5)	110(5)	-	-	-	-	8	6	-	-

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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	In percent				In NIS millions									
Kidum Mivne Iguach Ltd.														
Activity: Granting vehicle loans	20%	20%	20%	20%	-*	-*	-	-	-	-	*-	*-	-	(2)(6)
Life Style Financing Ltd.														
Activity: Granting credit	15%	15%	15%	15%	3	1	-	-	-	-	2	1	-	-
I.D.D.S. Services Ltd.														
Activity: Internet stores	20%	-	20%	-	-	-	-	1	-	-	(1)	-	(1)(6)	3

* 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 and 2015, Europay issued shares for NIS 2 million and NIS 11 million, respectively.

(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
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)	-

	Percentage of ownership	Total assets	Total liabilities	Equity attributed to owners of the company	Book value of investment in associate company
2015					
Kidum Mivne Iguach Ltd. (1)	20%	23	21	2	-*
Life Style Financing Ltd. (2)	15%	158	148	10	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
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
2014			
Kidum Mivne Iguach Ltd.	20%	-*	-*
Life Style Financing Ltd.	15%	2	2
I.M.T. - The Central Vehicle Distribution Company Ltd. (3)	15%	(1)	(1)

* Amount less than NIS 0.5 million.

(1) Includes a shareholders' loan.

(2) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is at a rate of less than 20%, due to the existence of qualitative indicators of material influence, including representation on 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 31,2015(2)	53	90	194	526	1	59	42	18	983
Additions	-	2	14	71	-	7	-	-	94
Disposals	-	-	-	-	-	-	37	-	37
As at December 31, 2016	**53**	**92**	**208**	**597**	**1**	**66**	**5**	**18**	**1,040**
Accumulated depreciation:									
As at December 31,2015(2)	13	50	158	425	1	41	38	5	731
Additions	1	4	20	53	-*	3	1	-*	82
Disposals	-	-	-	-	-	-	37	-	37
As at December 31, 2016	**14**	**54**	**178**	**478**	**1**	**44**	**2**	**5**	**776**
Depreciated balance as at December 31, 2016	**39**	**38**	**30**	**119**	**-***	**22**	**3**	**13**	**264**
Depreciated balance as at December 31, 2015	**40**	**40**	**36**	**101**	**-***	**18**	**4**	**13**	**252**
Average weighted depreciation rate in 2016 (%)	2.0	7.2	26.7	25.0	15.0	10.0	25.0	2.0	
Average weighted deprecation rate in 2015 (%)	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 323 million as at December 31, 2016 (December 31, 2015 - NIS 279 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, 2016, amounts to NIS 20 million (December 31, 2015: NIS 22 million).
- Rental income from investment property amounted to approximately NIS 3 million in 2016, compared with approximately NIS 4 million in 2015 and in 2014.

Note 15 – Buildings and Equipment (cont.)

In NIS millions

The Company

A. Composition

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As at December 31,2015(2)	35	192	502	1	58	42	830
Additions	2	14	68	-	7	-	91
Disposals	-	-	-	-	-	37	37
As at December 31, 2016	**37**	**206**	**570**	**1**	**65**	**5**	**884**
Accumulated depreciation:							
As at December 31,2015(2)	18	156	412	1	40	38	665
Additions	4	20	48	-*	3	1	76
Disposals	-	-	-	-	-	37	37
As at December 31, 2016	**22**	**176**	**460**	**1**	**43**	**2**	**704**
Depreciated balance as at December 31, 2016	**15**	**30**	**110**	**-***	**22**	**3**	**180**
Depreciated balance as at December 31, 2015	**17**	**36**	**90**	**-***	**18**	**4**	**165**
Average weighted depreciation rate in 2016 (%)	10.4	26.7	25.0	15.0	10.0	25.0	
Average weighted deprecation rate in 2015 (%)	10.4	26.7	25.0	15.0	10.0	25.0	

* Amount less than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which amounted to NIS 300 million as at December 31, 2016 (December 31, 2015 - NIS 257 million).

(2) Reclassified.

Note 16 – Other Assets

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2016	2015	2016	2015
Deferred taxes receivable (see Note 9)	**122**	**103**	**68**	**60**
Surplus of advance income-tax payments over current provisions	**39**	**27**	**39**	**26**
Other debtors and debit balances:				
Loans to employees	4	3	4	3
Prepaid expenses	45	33	44	32
Institutions	5	5	-	-
Related companies	-	-	4,301	3,656
Debtors in respect of discounting	309	218	-	-
Debtors in respect of gift certificates and prepaid cards	33	39	14	8
Others	14	13	12	9
Total other debtors and debit balances	**410**	**311**	**4,375**	**3,708**
Total other assets	**571**	**441**	**4,482**	**3,794**

Note 17 – Credit from Banking Corporations

	December 31, 2016					
	Average annual interest rate					
			Consolidated		The Company	
			December 31		December 31	
	On daily balance	On transactions in the last month	2016	2015	2016	2015
	%	%	In NIS millions		In NIS millions	
Credit in current debit accounts	**0.5**	**0.5**	**1,222**	**323**	**1,221**	**323**

Note 18 – Creditors in Respect of Credit-Card Activity

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2016	**2015**	**2016**	**2015**
Merchants (1)(2)	11,820	11,879	12,776	12,876
Liabilities in respect of deposits	1	1	1	1
International organization	1	-	1	-
Prepaid income	27	10	17	2
Benefit program for cardholders	30	42	30	42
Expenses payable	91	78	91	78
Others	119	116	119	116
Total creditors in respect of credit-card activity	**12,089**	**12,126**	**13,035**	**13,115**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 716 million as at December 31, 2016 (December 31, 2015 - NIS 576 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 767 million to the parent company in 2016.

Note 19 – Other Liabilities

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2016	2015	2016	2015
Provision for deferred taxes (see Note 9)	**7**	**8**	**-**	**-**
Surplus of provision for employee rights over amount funded (see Note 20)	**122**	**78**	**122**	**78**
Other creditors and credit balances:				
Expenses payable in respect of salaries and related expenses	88	61	87	60
Suppliers of services and equipment	40	50	39	49
Accrued expenses	89	67	86	66
Institutions	23	20	20	11
Related companies	535	532	541	537
Allowance for credit losses in respect of off-balance-sheet credit facilities	17	17	7	7
Creditors in respect of discounting	3	6	-	-
Creditors in respect of gift certificates and prepaid cards	143	131	125	101
Travelers' checks in circulation, net	8	9	8	9
Others	7	9	1	3
Total other creditors and credit balances	**953**	**902**	**914**	**843**
Total other liabilities	**1,082**	**988**	**1,036**	**921**

Note 20 – Employee rights

In NIS millions

A. Benefits at end of employment and post-employment

	December 31	
	2016	**2015**
Severance pay in respect of the termination of employee-employer relationships		
Amount of liability	139	107
Fair value of plan assets	100	97
Surplus liability over plan assets*	**39**	**10**
Early retirement		
Amount of liability	75	59
Fair value of plan assets	-	-
Surplus liability over plan assets*	**75**	**59**
Grant for non-utilization of sick days		
Amount of liability	6	7
Fair value of plan assets	-	-
Surplus liability over plan assets*	**6**	**7**
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**
Total	122	**78**

* Included in “Other Liabilities”

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, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Net commitment in respect of forecast benefit at beginning of period	**107**	**68**	**175**	**102**	**61**	**163**
Service cost	15	2	17	**10**	**2**	**12**
Interest cost	4	2	6	**4**	**1**	**5**
Actuarial loss (profit) **	22	23	45	**(4)**	**10**	**6**
Benefits paid	(9)	(12)	(21)	**(5)**	**(6)**	**(11)**
Net commitment in respect of forecast benefit at end of period	**139**	**83**	**222**	**107**	**68**	**175**
Net commitment in respect of cumulative benefit at end of period*	**121**	**83**	**204**	**90**	**67**	**157**

* Included in "Other liabilities".

** See Note 20E below.

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, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Fair value of plan assets at beginning of period	**97**	**-**	**97**	**90**	**-**	**90**
Actual return on the plan assets	1	-	1	**2**	**-**	**2**
Deposits in the plan by the Company	10	-	10	**10**	**-**	**10**
Benefits paid	(8)	-	(8)	**(5)**	**-**	**(5)**
Fair value of plan assets at end of period	100	-	100	**97**	**-**	**97**
Financing status – net liabilities recognized at end of the period*	**39**	**83**	**122**	**10**	**68**	**78**

* 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, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Amounts recognized in "Other Liabilities"	39	83	122	10	68	78
Net liabilities recognized at end of the period	**39**	**83**	**122**	10	68	78

d. Amounts recognized in cumulative other comprehensive income (loss), before tax effect

	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
Actuarial loss (profit), net	14	34	48	(10)	13	3
Closing balance in cumulative other comprehensive income (loss)	**14**	**34**	**48**	**(10)**	**13**	**3**

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, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Commitment in respect of forecast benefit	139	83	222	107	68	175
Commitment in respect of cumulative benefit	121	83	204	90	67	157
Fair value of plan assets	100	-	100	97	-	97

f. Plans in which the commitment in respect of the forecast benefit exceeds the plan assets

	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
Commitment in respect of forecast benefit	139	83	222	107	68	175
Fair value of plan assets	100	-	100	97	-	97

Note 20 – Employee rights (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

2. Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Service cost	15	2	17	10	2	12
Interest cost	4	2	6	4	1	5
Forecast return on plan assets	(4)	-	(4)	(3)	-	(3)
Subtraction of unrecognized amounts:						
Net actuarial loss (profit)	(-*)	2	2	-*	1	1
Net total benefit cost	**15**	**6**	**21**	**11**	**4**	**15**

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, 2016			For the year ended December 31, 2015		
	Company employees	Bank employees on loan	Total	Company employees	Bank employees on loan	Total
Net actuarial loss (profit) for the period	24	23	47	(10)	14	4
Amortization of actuarial (loss) profit	-*	(2)	(2)	-*	(1)	(1)
Total recognized in other comprehensive income	24	21	45	(10)	13	3
Net total benefit cost	15	6	21	11	4	15
Total recognized in net benefit cost for the period and in other comprehensive income	**39**	**27**	**66**	**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 subtracted from cumulative other comprehensive income to the statement of profit and loss as an expense (as income) in 2017, before tax effect

	Company employees	Bank employees on loan	Total
Net actuarial loss	1	5	6
Total expected to be subtracted from cumulative other comprehensive income(loss)	**1**	**5**	**6**

* Amount less than NIS 0.5 million.

3. Assumptions

a. Assumptions based on a weighted average used to determine the commitment in respect of thee 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, 2016		As at December 31, 2015	
	Company employees	Bank employees on loan	Company employees	Bank employees on loan
Discount rate	2.02%	1.31%	2.13%	1.6%
Rate of increase in CPI	2.66%	2.0%	1.95%	2.0%
Employee turnover rate	1.7%-24.4%	-(1)	1.7%-24.4%	-(1)
Rate of growth of remuneration	0-2.6%	0.5%-7.5%	0-2.6%	0.5%-7.5%

(1) Employee turnover rates – in the third quarter of 2016, the Bank updated the long-term employee turnover rate for employees with optimal terms. The new turnover rates vary in accordance with age and gender and reflect a weighted turnover rate of approximately 7.5% a year as compared with 6.25% a year prior to the change. The turnover rate for employees with personal contracts has been updated following the Remuneration of Office-holders in Financial Institutions Law. See also Note 20F below.

Note 20 – Employee rights (cont.)

In NIS millions

B. Defined Benefit Pension Plan (cont.)

3. Assumptions

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

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

	For the period ended December 31, 2015			
	December 31, 2015		December 31, 2015	
	Company employees	Bank employees on loan	Company employees	Bank employees on loan
Discount rate	2.13%	1.60%	1.99%	1.54%
Long term forecast return on plan assets	2.38%	-	2.42%	-
Rate of growth of remuneration	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, 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.)

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, 2015			
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
	Company employees	Company employees	Bank employees on loan	Bank employees on loan
	NIS millions			
Discount rate	(11)	15	(2)	2
Rate of increase in CPI	(-*)	-*	(-*)	-*
Employee turnover rate	3	(3)	2	(2)
Rate of growth of remuneration	17	(13)	1	(1)

* 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 2016	**December 31 2015**
Cash and deposits in banks	4%	7%
Shares	20%	20%
Bonds:		
Government	41%	39%
Corporate	28%	26%
Total	**69%**	**65%**
Other	7%	8%
Total	**100%**	**100%**

Amounts funded for severance pay of the employees are deposited in two severance pay funds and with a large number of individual provident funds / managers' insurance policies according to the employees' choice. The allocation of plan assets reported is based on current reports in the media with regard to some of the funds that represent the bulk of the current funds for Company employees.

b. Cash Flows

a. Deposits for Company employees

	Forecast *	**Actual deposits for the year ended December 31, 2015**	
	2017*	**2016**	**2015**
Deposits	10	10	10

* Estimated deposits which the Company expects to pay to pension plans for a defined benefit during 2017.

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
2017	13	18	31
2018	12	18	30
2019	1	18	19
2020	1	5	6
2021	1	5	6
2022-2026	6	15	21
2027 and thereafter	24	6	30
Total	**58**	**85**	143

C. Personal Contracts –Company's Chief Executive Officer

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

2. On February 25, 2016, following the approval of the Company's Salary and Remuneration Committee and the approval of Bank Hapoalim's Remuneration Committee, the Company's Board of Directors approved Dr. Weksler's period of office as the Company's CEO and his remuneration in accordance with the Employment Agreement. Dr. Ron Weksler will also serve as CEO of the Companies Europay (Eurocard) Israel Ltd. and Poalim Express Ltd.

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

Note 20 – Employee rights (cont.)

C. Personal Contracts – the Company's Chief Executive Officer (cont.)

2. (cont.)

According to the Employment Agreement, the CEO is entitled to fixed remuneration paid to members of management in Bank Hapoalim in accordance with the Remuneration Plan of Bank Hapoalim (the fixed remuneration includes a monthly salary subject to social contributions, a fixed monthly payment without social contributions and fixed equity compensation in respect of which there are no social contributions) and variable remuneration according to the Company's Remuneration Plan. In addition, the Company's CEO is committed to a 6 month non-competition period. In January 2017, and in accordance with the Remuneration of Office-holders in Banking Corporations Law, see further on, the contract with the Company's CEO was updated with effect from October 12, 20163. Mr. Ronen Stein ended his tenure as the CEO of the Company at the end of January 2016.

D. Bonus Plan for the Chief Executive Officer of the Company

Within the context of the Company's CEO's Employment Agreement, Dr. Ron Weksler, as mentioned above, is entitled to variable annual remuneration in accordance with the provisions of the Remuneration Plan, which has been adopted in accordance with the directives issued by the Supervisor of Banks regarding remuneration policy in a banking corporation, including on the matter of payment arrangements and the spreading thereof, including in respect of a deferred payment of part of the annual grant in accordance with Bank Hapoalim's and Isracard's performances.

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

E. Bonuses

In September 2014, the Board of Directors of the Company approved the Remuneration Policy for Company employees according to the recommendations of the Remuneration Committee of the Company (hereinafter: **the "Remuneration Policy"**) and Proper Conduct of Banking Business Directive No. 301A of the Banking Supervision Department regarding the remuneration policy of a banking corporation from November 19, 2013 (hereinafter: **"Directive 301A"**). The remuneration policy was formulated, taking into account the principles of the Remuneration Policy of Bank Hapoalim. On December 16, 2014, the Board of Directors of the Company approved the "Isracard Ltd. and Isracard Group - Remuneration Plan (2014)", as amended (the "Remuneration Plan"). The Remuneration Plan is consistent with Remuneration Policy and is derived from and replaces previous Remuneration Plans in existence in the Company until that date. The Remuneration Plan applies to "key employees" in the Company only, as defined in Directive 301A. In March 2016, the Knesset passed the Remuneration of Office Holders Law, see also Section F below. In January 2017, the Company updated the Remuneration Plan in accordance with the Law.

The main points of the Remuneration Plan are as follows:

Separate mechanisms for setting a bonus budgets and formats have been established for business functions and control and supervision functions.

Note 20 – Employee rights (cont.)

E. Bonuses (cont.)

Establishing the bonus budget for Officers that are not Directors (hereinafter: “the Senior Executives”)
The bonus budget for members of management in any given year (hereinafter: the "**Representative Bonus Budget**") is based on the calculation of the **"basic bonus amount,"** which is a certain percentage of the average bonus budget for managers in Bank Hapoalim with the rank of sub-division managers and senior officials in the Bank (as advised to the Company by the Chief Accountant of Bank Hapoalim), adjusted to the salaries of those members of management in the Company and adjusted to a rate complying with the "target profit" as stipulated for the relevant year, as defined in the Remuneration Plan. The representative bonus budget for executives will be multiplied by the number of members of management that are not in the control function, and the result received is the "bonus budget." A certain percentage of the bonus budget to members of management (excluding members of management in the control function), in respect of the bonus year, will be distributed to members of management at the discretion of the Chief Executive Officer and subject to approval by the relevant organs of the Company.

Distribution of the bonus budget among the Senior Executives

Subject to the aforesaid, each year, the bonus budget shall be distributed to Senior Executives in respect of the preceding year, proportionally to the personal score of each Executive. Part of the personal score shall be fixed; part of the personal score shall be assigned according to the Executive's achievement of predefined performance targets established in advance by the Chief Executive Officer of the Company; and part of the personal score shall be assigned according to the recommendation of the Company’s Chief Executive Officer, based on his opinion. The distribution of the bonus budget and the establishment of the annual bonus shall be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law). A member of management on loan from Bank Hapoalim may be entitled to an additional amount of his annual bonus in the event that the rate of return on equity of Bank Hapoalim is at least the required cost of capital.

The bonus mechanism for Executives defined as serving in control and supervision functions is adjusted such as to disconnect the amount of the bonus from the business results of the Company. The amount of the basic bonus (which is a certain percentage of the representative bonus budget, after certain adjustments), which is calculated for each senior executive in the control function, may increase or decrease depending on the individual score of these Executives, given in respect of meeting performance targets and the opinion of the immediate supervisor of the Senior Executive (similar to that stated above in respect of members of management not in the control function).

Note 20 – Employee rights (cont.)

E. Bonuses (cont.)

Ceilings and limits

The annual bonus shall not exceed the ceilings set in the program. The element of discretion in determining the annual bonus that exceeds the representative bonus budget for the member of management not in the control function, shall not exceed 20% of the annual bonus for the year, and for any Senior Executive in the control function, the element of discretion in determining the annual bonus may not exceed 20% of the annual bonus. In circumstances where there was a substantial deviation from the capital adequacy ratio (as defined in the Bank's remuneration plan), in any year, then prior to the approval of bonuses for key employees, the Company will apply for a recommendation from the member of management responsible for the Company on behalf of the Bank. There are additional restrictions in the plan, inter alia, regarding reimbursement of bonus amounts in the event of an amendment to the financial statements, which provide that the Board of Directors has the authority to reduce up to 50% of the annual bonus at its discretion under certain circumstances and more, in accordance with the Company's remuneration policy.

Payment mechanism – spreading of the annual bonus and the annual payment

Every year, 50% of the bonus will be paid in cash after the publication of the annual financial statements of the Company and of the Bank and 50% of the annual bonus will be deferred as follows:

For members of management on loan from the Bank - the payment will be through share-based Remuneration in the form of RSU units which under certain conditions will be exercised automatically into shares of Bank Hapoalim. The RSU units will vest in 3 equal annual tranches in the 3 years following the bonus year, at the end of each year and subject to certain rates of compliance with the Company's target profit.

For Senior Executives who are not on loan from Bank Hapoalim - 50% of the annual bonus will be paid in 3 equal annual tranches in the 3 years following the bonus year, at the end of each year and subject to certain rates of compliance with the Company's target profit.

Notwithstanding the aforesaid, in a year in which the total annual bonus does not exceed 1/6 of the fixed remuneration of the executive in that year, the annual bonus will be paid in cash.

Termination of Employment

In the event that a Senior Executive works only part of the bonus year, he will be entitled to a proportionate part of the annual bonus depending on the actual period in which he worked in the bonus year provided that he 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, the Executive will not be entitled to an annual bonus in respect of the year in which his employment ended, and his entitlement to tranches of the deferred annual bonus unpaid at that date will lapse.

Note 20 – Employee rights (cont.)

E. Bonuses (cont.)

Additional remuneration of employees of the Company subject to the terms of the remuneration policy

The Company employs employees on loan from Bank Hapoalim who are not officers of the Company, and as such are entitled to the annual bonus, to which some of the employees of Bank Hapoalim are entitled determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The average annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance.

Employees employed directly by the Company who are not officeholders in the Company, are entitled to an annual bonus as decided by the Board of Directors of the Company. The decision of the Board of Directors is based on an existing plan made conditional on meeting targets set every year.

F. The Remuneration of Office Holders in Financial Corporations Law

On March 28, 2016, the Knesset passed the Remuneration of Officer Holders in Financial Corporations (Special Approval and Non-allowance for Tax Purposes for Exceptional Remuneration) Law – 2016 (hereinafter: "**The Law**"). The Law places restrictions on the scale of the remuneration for employees of financial corporations and stipulates, inter alia, that a financial corporation's commitment with a senior office holder or employee, which includes the provision of remuneration, the forecast expense in respect of which, as calculated at the time of the approval, in accordance with generally accepted accounting principles, is expected to amount to NIS 2.5 million a year, requires the approval of the financial corporation's Remuneration Committee, its Board of Directors (with a majority of the external or independent directors) and the approval of a general meeting.

It is further stipulated in the Law that such a commitment (that is to say, in excess of NIS 2.5 million) is not to be approved unless the ratio between the cost of a full time position, for the said remuneration and the expense relating to the lowest remuneration, for a full time position, which the financial corporation has paid, directly or indirectly, to an employee of the corporation, including an employee of a manpower company, where the financial corporation is the actual employer, and an employee of a service contractor who is employed in the provision of services on the financial corporation's premises, in the year preceding the timing of the commitment, is smaller than 35.

The provisions of the Law relate to effective commitments that are approved from the day on which the Law was published (April 12, 201 6) and thereafter, however in respect of such commitments, which were approved before the day on which it was published, the provisions of the Law are effective at the end of a period of six months from the day on which it was published.

Further to the approval and recommendation of the Remuneration Committee, as from October 12, 2016, the Company's CEO, who is an employee who is on loan from the Bank, may not receive remuneration for which his forecast "annual expense" exceeds the ceiling that was set in the Law. Accordingly, as from October 12, 2016, the remuneration that is paid to the Company's CEO will be reduced such that it will not exceed the said ceiling (taking into account fractions of a year).

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

Note 20 – Employee rights (cont.)

F. The Remuneration of Office Holders in Financial Corporations Law (cont.)

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

The impact of the updating of the said actuarial assumptions, as calculated by the external actuary in respect of the Bank's employees who are on loan, amounted to an amount of approximately NIS 1 million. This impact has been treated as an actuarial loss, which has been reflected in shareholders' equity and which will be recognized in the statement of profit and loss over the remaining periods of service of the participants in the program.

G. The Company's Management Staff who are on Loan from the Bank

The Company has been informed that pursuant to a decision by the Bank, the members of the Company's management who are employees who are on loan to the Company from the Bank, will resign from the Bank so that they can be absorbed as employees of the Company in the coming months.

H. The Efficiency Program

On January 12, 2016, the Banking Supervision Department published a letter regarding increasing operational efficiency in the banking system in Israel in accordance with which banking corporations are required to consider and approve a multi-annual program for increasing efficiency over the coming five years as well as principles for increasing long-term efficiency. On October 27, 2016, Bank Hapoalim's Board of Directors approved a group efficiency program.

Within the framework of the Bank Hapoalim Group and in accordance with its efficiency program, the Company has updated the estimates of the retirement its employees who are on loan from Bank Hapoalim pursuant to the Bank's policy. In addition, in January 2017, after the balance sheet date, the Company's Remuneration Committee discussed the one-time joining of a limited number of Isracard's employees to the terms for leaving, which Bank Hapoalim has initiated, which will be done mutatis mutandis. The overall costs of the updating of the liabilities amount to NIS 45 million, before tax effects. These costs constitute an actuarial loss and are reflected under other comprehensive income.

I. Vacations

The Company’s employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees’ most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 2 million (December 31, 2015 – NIS 2 million).

Note 20 – Employee rights (cont.)

J. Agreement with Employee Union

On December 25, 2013, the Company signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, a job description manual was agreed upon. On January 29, 2017, the subsidiaries, Tzameret Mimunim and Global Factoring signed a collective wages agreement, which attaches their employees (approximately 30 employees) to the Company's collective agreement.

K. Remuneration Policy

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

Note 21 – Share-Based Payment Transactions

1. The following are details of share-based payment arrangements that existed at the Company during the period ended December 31, 2016:

   A. Options and phantom units for employees of Bank Hapoalim on loan to the Company

      1. On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Bank on loan to the Company, would receive options to purchase shares of the Bank at a price of NIS 1 per option. These options were allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program are similar to those of the option plan for employees for 2004-2009. The option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated. In February 2012, the allocation of any option warrants ended under this program.

      2. In March 2013, the Board of Directors of the Bank approved a program for the allocation of phantom units in 2013-2017, pursuant to which permanent employees of the Bank, including employees of the Bank on loan to the Company, will receive phantom units. These phantom units, which are exercised into cash, will be allocated at no cost, in five portions, in each of the years 2013-2017. The terms of the program are similar to those of the options granted to permanent employees of the Bank in previous years. The phantom units will be exercised automatically one year after a four-year vesting period.

Note 21 – Share-Based Payment Transactions (cont.)

1. The following are details of share-based payment arrangements that existed at the Company during the period ended December 31, 2016 (cont.)

B. Remuneration plan for Bank Hapoalim employees on loan under a senior personal contract – bonuses and equity compensation

In August 2010, the Audit Committee and the Board of Directors of the Bank approved a Remuneration Plan (as amended from time to time) for the senior managers in the Bank who are also employees on loan (hereinafter: **"the Managers"**) applicable with effect from January 1, 2010, and thereafter (subject to adjustments In special cases) (hereinafter: the **"2010 Plan"**).

The 2010 Plan includes two means of compensation (in addition to salary and other benefits in the Bank): a risk-adjusted annual bonus contingent on performance and equity compensation in the form of a blocked phantom share plan, which was replaced in 2012 with a secondary plan for granting blocked stock units (RSU). Pursuant to the transitional provisions in the Remuneration Policy and in Directive 301A, there will be a gradual transition of executive remuneration from the 2010 Plan to the 2014 Plan adopted by the Bank on June 22, 2014, in accordance with the provisions of the Bank's Remuneration Policy of the Bank, so that no later than 2017 all remuneration of the Bank's managers and employees will be in accordance with the 2014 Plan.

C. In 2007, a memorandum of principles was signed by the Company and Mizrahi Bank Ltd. (hereinafter: "Mizrahi Bank"), which stated, among other matters, that Mizrahi Bank would continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years. In accordance with the memorandum of principles, the Company allocated shares to Mizrahi Bank, at a rate of 1.8% of the share capital of the Company, for the extension of the term of the existing agreements.

2. Estimated fair value of equity instruments granted

- The fair value of the options granted to employees of the Bank under the plan for 2010-2012 was measured on the date of their granting, using the Black & Scholes model.
- The fair value of the amount owed to the employees of the Company, as employees of the Company, including phantom units within the 2013-2017 plan, in respect of rights to the increase in the value of shares, settled in cash or equity instruments of the Parent Company, is re-measured at every reporting period until the date of settlement.

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		
	2016	**2015**	**2014**
In circulation at beginning of year	45,111	180,632	415,297
Granted during the year	-	-	119,372
Forfeited during the year	(2,589)	(1,308)	(154,209)
Exercised during the year	(42,522)	(134,213)	(199,828)
In circulation at end of year	**-**	**45,111**	**180,632**

1. The weighted average exercise price is NIS 1 for all of the options.
2. No options were granted under the Plan in 2016. The weighted average fair value of the share options granted during the year, at the date of measurement was NIS 15.75 per option in 2014.

4. Additional information regarding number of options – 2014 Plan:

	Consolidated and the Company	
	Number of units for the year	
	2016	**2015**
In circulation at beginning of year	22,186	-
Granted during the year	73,797	33,279
Forfeited during the year	-	-
Exercised during the year	(35,692)	(11,093)
In circulation at end of year	**60,291**	**22,186**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during the year at the date of measurement was NIS 19.37 per option.

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		
	2016	2015	2014
In circulation at beginning of year	62,778	124,345	184,076
Granted during the year	-	4,111	8,160
Forfeited during the year	-	(3,284)	(6,814)
Exercised during the year	(62,778)	(62,394)	(61,077)
In circulation at end of year	**-**	**62,778**	**124,345**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during previous years was: 2015 – NIS 12.38, 2014 – NIS 12.73.
3. The weighted average share price at the exercise date of the share options exercised during the year was NIS 21.35 (2015 - NIS 19.34; and 2014 NIS 19.85 per option warrant).

6. Additional information regarding phantom units for employees of Bank Hapoalim on loan to the Company:

	Consolidated and the Company		
	Number of units		
	2016	2015	2014
In circulation at beginning of year	189,838	121,868	60,324
Granted during the year	13,887	67,970	61,544
In circulation at end of year	**203,725**	**189,838**	**121,868**

7. Liabilities arising from share-based payment transactions settled in cash

	Consolidated and the Company	
	December 31	
	2016	2015
	In NIS millions	
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		
	2016	2015	2014
	In NIS millions		
Expense arising from share-based payment plans	6	6	8

Note 22 – Shareholders' Equity

A. Share capital

	December 31, 2016		December 31, 2015	
	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:

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

Note 22 – Shareholders’ Equity (cont.)

B. Capital Adequacy and Leverage Pursuant to the Directives of the Banking Supervision Department (cont.)

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 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. For the year 2016, the rate of the deductions from regulatory capital is 60% and the ceiling for qualifying instruments in regulatory capital stands at 60%. As from January 1, 2017, the rate of the deductions from regulatory capital will stand at 80% and the ceiling for qualifying instruments in regulatory capital will stand at 50%.

Minimum capital ratios

On May 30, 2013, the Supervisor of Banks published a circular to all the banking corporations and credit card companies regarding minimum capital ratios as part of preparations for implementing Basel III directives. Pursuant to the circular, all the banking corporations and credit card companies are required to comply with a Tier 1 shareholders’ equity minimum ratio of 9%, by January 1, 2015. In addition, a particularly significant banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets in the Israeli banking sector, is required to maintain a Tier 1 shareholders’ equity minimum ratio of 10%, by January 1, 2017. Furthermore, it was determined that as from January 1, 2015 the minimum 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 "Clearers and Clearing Charge Card Transactions", which contains a relief for a clearer regarding the shareholders' equity requirement, which is to be calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 (Measurement and Capital Adequacy). However, despite what is stated in Section 40 of Proper conduct of Banking Business Directive 201, the Tier 1 shareholders' equity ratio may not be less than 8% and the overall capital ratio may not be less than 11.5%. This directive has been effective since June 1, 2016. On February 26, 2017, the Company’s Board of Directors approved the minimal capital 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%.

Note 22 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leverage Pursuant to the Directives of the Banking Supervision Department (cont.)

A. Capital components for the calculation of the capital ratio pursuant to Basel III [(1)]

In NIS millions

	As at December 31	
	2016	**2015**
1. Capital for purposes of calculating capital ratio		
Tier 1 shareholders' equity and Tier 1 capital, after deductions	2,680	2,457
Tier 2 capital	137	126
Total overall capital	**2,817**	**2,583**
2. Weighted balances of risk assets		
Credit risk	10,940	10,401
Market risk	19	18
Operational risk	1,963	1,905
Total weighted balances of risk assets	**12,922**	**12,324**

See notes below.

Note 22 – Shareholders' Equity (cont.)

B. Capital Adequacy and Leverage Pursuant to the Directives of the Supervisor of Banks (cont.)

A. Capital components for the calculation of the capital ratio pursuant to Basel III[1] (cont.)

In NIS millions

	As at December 31	
	2016	2015
3. Ratio of capital to risk components (in percentages)		
Tier 1 shareholders' equity and Tier 1 capital to risk components	20.6%	19.9%
Overall capital ratio to risk components	21.8%	21.0%
Minimum Tier 1 shareholders' equity required by the Banking Supervision Department	8.0%[3]	9.0%
Minimum overall capital required by the Banking Supervision Department	11.5%[3]	12.5%

B. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

Capital ratio to risk components

	As at December 31	
	2016	2015
Tier 1 shareholders' equity ratio to risk components before implementation of the effect of the transitional provisions in Directive 299	20.6%	19.9%
Implementation of the impact of the transitional provisions in Directive 299	0.1%	-[2]
Tier 1 shareholders' equity ratio to risk components after the effect of the transitional provisions in Directive 299	20.7%	19.9%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211 on the subject of "Measurement and Capital Adequacy". In addition, these figures include adjustments in respect of an efficiency program which were determined pursuant to a letter from the Supervisor dated January 12, 2016 on the subject of "Operational efficiency in the banking system in Israel", which are reflected in equal rates.

(2) A rate that is lower than 0.05%.

(3) In accordance with Proper Conduct of Banking Business Directive 472 "Clearers and Clearing of Charge Card Transactions", which is effective as from June 1, 2016.

Note 22 – Shareholders' Equity (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 and securities financing transactions, and off-balance sheet items. As a rule, this measurement will be consistent with the accounting values and risk weightings are not taken into account. In addition, the Company is not allowed to use physical or financial collateral, guarantees or other techniques for mitigating credit risk, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Company calculates the exposure to derivatives pursuant to Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203. Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. A banking corporation is required to comply with the minimum leverage ratio from January 1, 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until January 1, 2018.

Below is the leverage ratio calculated pursuant to Proper Conduct of Banking Business Directive No. 218

	As at December 31	
	2016	**2015**
Tier 1 capital (in NIS millions)	2,680	2,457
Total exposures (in NIS millions)	20,720	20,289
Leverage ratio	12.9%	12.1%
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	
	2016	2015		2015
Unutilized credit-card credit lines:				
Credit risk on the Company	9,201	9,004	8,758	8,538
Credit risk on banks	19,031	26,503	19,031	26,503
Credit risk on others	322	344	-*	-*
Allowance for credit losses	(10)	(10)	(6)	(6)
Unutilized credit-card credit lines, net	**28,544**	**35,841**	**27,783**	**35,035**
Guarantees and other liabilities:				
Exposure in respect of guaranteed checks	54	68	54	68
Exposure in respect of other guarantees	28	28	28	28
Liability in respect of debt discounting	131	61	-	-
Exposure in respect of other liabilities	185	171	8	7
Exposure in respect of merchant credit lines	144	163	77	74
Allowance for credit losses	(7)	(7)	(1)	(1)
Guarantees and other liabilities, net	**535**	**484**	**166**	**176**

* Amount less than NIS 0.5 million.

B. Activity in Derivative Instruments – Volume and Maturity Dates

1. On November 4, 2014, a subsidiary of the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 30 million nominal value, maturing in May 2016. During the course of the second quarter of 2016, the transaction was settled in an orderly manner.

2. On February 2, 2015, the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 25 million nominal value, maturing in August 2016. During the course of the third quarter of 2016, the transaction was settled in an orderly manner.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

B. Activity in Derivative Instruments – Volume and Maturity Dates (cont.)

3. 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 appears in the balance sheet at a negative fair value in an amount of less than NIS 0.5 million.

4. 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 appears in the balance sheet at a negative fair value in an amount of less than NIS 0.5 million.

C. Antitrust and Regulatory Initiatives

1. Antitrust

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

2. Regulatory initiatives

A. In 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 and to increase competition in the area of debit cards. Among the recommendations, inter alia, the Banking Supervision Department determined instructions for distributing debit cards to bank customers and for the immediate financial settlement of debit card transactions and the manner of presentation of the details of transactions carried out with the card, and timetables for implementation (including the crediting of the merchant for debit card transactions within 3 days from the time of the transmission of a transaction, as from April 1, 2016). In August 2015 a temporary order was published in the Official Gazette, in which the Governor of the Bank of Israel declared that the interchange fee for debit card transactions is under supervision and the rate was set at 0.3% of the transaction amount for the year starting April 1, 2016.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

B. 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 clearing. The directive and the instructions issued by the Banking Supervision Department, which were issued later, refer, inter alia, to timetables for issuing cards that support the EMV standard and for connecting terminals supporting the standard, as well as the entry into force of a mechanism for shifting responsibility from the issuer to the clearer.

C. In May 2016 the Banking Supervision Department published Proper Conduct of Banking Business Directive Number 472 on the subject of clearers and clearing charge card transactions. The Directive outlines the main principles for clearing activity for charge card transactions and is based, inter alia, on the regulation in this field overseas. The Directive provides relief for some of the regulatory requirements, which are imposed today on credit card companies and clearers within the framework of Proper Conduct of Banking Business Directives, with adjustment to the level of risk of those bodies, which do not accept deposits from the public. The Directive includes various provisions, and inter alia, it enables a clearer to provide terminals to merchants under the conditions that are included in the Directive. The Directive is effective as from June 1, 2016, except for certain sections, for which a different effective date has been set.

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

Note 23 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

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

F. In June 2016, the Banking Supervision Department published a draft "Outline for the Foundation of a New Bank in Israel: the Banking Supervision Department's New Policy for Removing Barriers to Entry". Pursuant to the summary of the policy, the Outline sets out some of the Banking Supervision Department's steps to increase competition in the banking system in Israel and in support of changes in the Outline, inter alia, within the framework of the "Strum Committee". The first part of the Outline focuses on the awarding of a Bank License to credit card companies, and in the second part it focuses on the conditions that are required for the foundation of a completely New Bank.

G. In April 2016, the Data Providers Service Law – the Foundation of a Credit Data Sharing System and the Person Responsible for the System, the purpose of which is to improve the credit data service in the economy in order to increase competition in the retail credit market, increasing the access to credit and reducing discrimination in that field was published in the Reshumot. In June 2016, the Bank of Israel published a Temporary Directive on the subject of retention of information for the purpose of the delivery thereof to the credit database. The Directive details the data fields and the format for retaining the data that is required according to the sources of the data. According to the explanations to the Temporary Directive, its objective is to build a data-base that will be reported to the data-base, such that when it is launched the data-base will have sufficient data and volume so as to enable its operation.

H. In October 2016, the Bank of Israel published a document of principles on the subject of "Arrangement of Payment Services", containing principles for the arrangement of payment services. The principles in the document will form the foundation for a draft law on the subject. The determination of the principles is based on the European Directive for payment services, PSD and PSD2, whilst making the adjustments that are required for the local market. According to the principles, one of the objectives of the Payment Services Law is the adaptation of consumer protections in the payment services field and the determination of uniform usage terms and consumer protections, so far as is possible, on the receipt of payment services from the various providers of payment services and the various means of payment. However, each regulator will be entitled to set additional directives for bodies under their supervision, in accordance with their characteristics. Bodies in the financial market can select the license that is appropriate for them in accordance with the nature of their activities and the level of risk therein. The public could present their comments on the document by November 20, 2016.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust and Regulatory Initiatives (cont.)

2. Regulatory initiatives (cont.)

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, in the aggregate amount of approximately NIS 8 million as well as class action lawsuits. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

1. In April 2014, the Company and Poalim Express received a lawsuit and a motion for its approval as a class action. The personal claim amount is NIS 145, and the amount of the class action was not stated. According to the plaintiff who is a merchant who has clearing agreements with the respondents, the defendants acted unlawfully, in that the minimum fee they charged while he was bound concurrently in an agreement with a discounting firm, according to which he discounted through the discounting firm some of the transactions that he cleared by means of the defendants, without taking into account the amounts that were credited to the discounting firm. In February 2016, a decision was handed down authorizing the filing of a class action relating to merchants working with a particular discounting company. An amended class action was presented prior to the presentation of a statement of defense. The parties have reached a compromise agreement, within the framework of which the hearing has been consolidated with the following proceedings, which has been presented for the Court's approval. The Court has instructed the publication of the compromise agreement.
2. In February 2016, the Company, 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 clearing 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 cleared through the respondents by means of the discounting company, without taking into account the amounts with which the discounting company had been credited. The amount of the class action was not denoted. The parties have reached a compromise agreement, within the context of which the hearing of the case has been consolidated with the above proceedings, which was presented to the Court for approval. The Court has instructed the publication of the compromise agreement.

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, summations have been presented and the judgment is awaited.
4. In September 2014, the Company received a lawsuit and a motion for its approval as a class action against it and another credit card company. The amount of the class action has not been stated. The plaintiffs claim that gift cards issued by the Company, including a condition determining the short-term period for honoring the voucher are a uniform contract that includes discriminatory conditions, and should be canceled or changed. On February 16, 2015, the Company submitted its response to the petition for approval. In this response, the Company stated that it is operating correctly and meets the requirements of the law and the approval should therefore be dismissed. A response was filed to this response and preliminary hearings were set in the case. On October 11, 2016, a ruling was handed down approving the compromise agreement that the parties had reached, the main points of which are the renewal of the gift cards whose period is shorter than five years, with new gift cards with an updated period of validity.
5. In January 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the plaintiff, the Company charges a fee for "Purchase of foreign currency with a credit card from a currency exchange" unlawfully on currency purchase transactions other than US dollars, contrary to the price list, thus the Company violates various statutory provisions. The personal claim is approximately NIS 37 and the amount of the class action was not specified. Preliminary hearings have been held in the case in which the Court recommended the parties have discussions about the possibility of compromise. The compromise agreement that the parties have reached was presented to the Court, which approved the compromise in a ruling that was handed down in August 2016.
6. 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. Negotiations for a compromise are being conducted between the parties.
7. 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. A number of preliminary hearings have been held in the case and it has been set for an evidential hearing in January 2017. At the Court's recommendation, the parties have been conducting an arbitration process and it would appear that an application for removal will be presented.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings and Pending Claims (cont.)

8. In September 2015, the Company received a lawsuit and a motion for its approval as a class action. According to the petitioner, the manner in which the Company acted when charging a fee for obtaining information 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 in December 2016.

9. 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.

10. 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 is estimated at approximately NIS 23 million by the petitioner. The petitioner is expected to amend his motion and afterwards the Company will be required to file its response. The parties are conducting an arbitration process.

11. 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. The respondents are to file their response to the amended motion for approval. In December 2016, a response was filed to the motion for approval.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

D. Legal Proceedings and Pending Claims (cont.)

12. 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 period 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. In February, the petitioner filed a motion for removal, after discovering that the Company had acted in accordance with the law, which was accepted by the Court,

E. Assessments

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 and accordingly it will be filing an objection to the tax authorities. In the event that the Company's position is not accepted, the Company will be exposed to similar demands in respect of the period 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 officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

G. Agreements with Subsidiaries and Sister Companies

The Company has agreements with Isracard Mimun, Europay, Tzameret, Global, and Poalim Express, which are subsidiaries and a fellow subsidiary, for the operation of their credit-card systems and/or service agreements.

The Company operates the credit-card issuance and clearing activity of Poalim Express and Europay, as well as the clearing of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement. 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 Banking Corporations

The Company and Europay are connected with the banks that are detailed below under various agreements for signing up customers to the Company's credit cards arrangement Bank Hapoalim (the parent company), Bank Mizrahi Tefachot Ltd., Bank Yahav For State Employees Ltd., The First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otzar Ha'Hayal Ltd. and Union Bank Ltd. (jointly – "**The Banks in the Arrangement**").

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

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	
	2016	**2015**
	In NIS millions	
First year	30	27
Second year	14	15
Third year	11	11
Fourth year	11	11
Fifth year	9	11
Over five years	10	10

J. Contractual Engagements with Customer Clubs

Within the framework of the activity with customer clubs, the Company has entered into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (hereinafter: "**The** "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include, inter-alia, workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards.

Note 23 – Contingent Liabilities and Special Agreements (cont.)

J. Contractual Engagements with Customer Clubs (Cont.)

The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Hever cards for career military personnel and retirees, Life-Style club cards, Ashmoret cards for members of the Israel Teachers Union, HOT cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., "Rami Levy" cards, cards of retail chains, and more

K. Pledges

A subsidiary has pledged a floating charge on all its financial assets, property and rights to secure its obligations to banks. In addition, the subsidiary company pledged a fixed charge on its share capital and a pledge on monies, bills and other collateral.

Note 24 – Operating Segments

A. General

The Company issues, clears, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands (hereinafter: "**MasterCard cards**"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC"). The Company also issues, acquires, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association.

The Issuance Segment

The Company issues and operates Isracard, MasterCard, and Visa credit cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards. All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment. Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad, as well as net financing income attributed to the segment. Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer. Main expenses associated with this segment: marketing, advertising, and management of customer clubs; benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment. Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment. Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 24 – Operating Segments (cont.)

The Financing Segment

The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability. All income and expenses related to the Company's interest-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to the Financing Segment.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance, Clearing, and/or Financing Segment, each of which does not constitute a reportable segment. This segment also includes income from the sale of shares of MC.

Note 24 – Operating Segments – Consolidated (cont.)

In NIS millions

	For the year ended December 31, 2016				
Profit and loss information	**Issuance Segment**	**Clearing 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	7	38	44
Total income	**1,142**	**288**	**242**	**38**	**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**	**132**	**36**	**339**
Provision for taxes on profit	41	10	47	13	111
Profit after taxes	**97**	**23**	**85**	**23**	**228**
The Company's share in profits of associates after tax	-	-	-	1	1
Net profit	**97**	**23**	**85**	**24**	**229**
Return on equity (percent net profit out of average capital)	6.2	11.4	11.2	62.3	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**	**Clearing 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	4	41	57
Total income	**1,092**	**278**	**179**	**41**	**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**	**113**	**35**	**361**
Provision for taxes on profit	45	13	38	12	108
Profit after taxes	**129**	**26**	**75**	**23**	**253**
The Company's share in profits of associate companies after the effect of tax	-	-	-	(2)	(2)
Net profit	**129**	**26**	**75**	**21**	**251**
Return on equity (percent net profit out of average capital)	8.6	12.9	12.9	52.0	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.

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Reclassified.

Note 24 – Operating Segments – Consolidated (cont.)

In NIS millions

	For the year ended December 31, 2014 [(2)]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	466	875	1	-	1,342
Inter-segmental fees	563	(563)	-	-	-
Total	**1,029**	**312**	**1**	**-**	**1,342**
Net interest income	15	1	128	-*	144
Other income	29	(3)	2	49	77
Total income	**1,073**	**310**	**131**	**49**	**1,563**
Expenses (income)					
In respect of credit losses	4	3	13	(1)	19
Operating expenses	306	151	21	3	481
Sales and marketing expenses	152	53	11	-	216
General and administrative expenses	34	21	7	1	63
Payments to banks	370	6	-	-	376
Total expenses	**866**	**234**	**52**	**3**	**1,155**
Profit before taxes	**207**	**76**	**79**	**46**	**408**
Provision for taxes on profit	54	22	25	15	116
Profit after taxes	**153**	**54**	**54**	**31**	**292**
The Company's share in profits of associate companies after tax	-	-	-	(-*)	(-*)
Net profit	**153**	**54**	**54**	**31**	**292**
Return on equity (percent net profit out of average capital)	11.0	26.2	12.7	-**	14.3
Average balance of assets	11,401	1,342	2,120	117	14,980
Of which: investments in associate companies	-	-	-	5	5
Average balance of liabilities	307	11,700	353	576	12,936
Average balance of risk assets	7,684	1,136	2,338	114	11,272

* Amount less than NIS 0.5 million.

*** Rate higher than 100%.

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Reclassified.

Note 25 – Assets and Liabilities by Linkage Base – Consolidated

In NIS millions

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

In NIS millions

	December 31, 2015					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	32	4	27	6	-	69
Debtors in respect of credit-card activity, net	14,905	86	92	28	-	15,111
Securities	-	-	-	-	19	19
Investments in associate companies	-	-	-	-	1	1
Buildings and equipment	-	-	-	-	252	252
Other assets	400	4	-	-	37	441
Total assets	**15,337**	**94**	**119**	**34**	**309**	**15,893**
Liabilities						
Credit from banking corporations	308	-	5	10	-	323
Creditors in respect of credit-card activity	11,943	62	108	3	10	12,126
Other liabilities	965	-	13	8	2	988
Total liabilities	**13,216**	**62**	**126**	**21**	**12**	**13,437**
Difference	**2,121**	**32**	**(7)**	**13**	**297**	**2,456**

(1) Including foreign-currency linked.

Note 26 – Assets and Liabilities by Linkage Base and by Term to Maturity

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 26 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

	December 31, 2015													
	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	8,074	2,902	3,111	890	388	122	60	4	-	-	15,551	409	15,762	4.16%
Liabilities	8,096	2,432	2,179	291	70	6	16	21	16	12	13,139	118	13,313	0.78%
Difference	**(22)**	**470**	**932**	**599**	**318**	**116**	**44**	**(17)**	**(16)**	**(12)**	**2,412**	**291**	**2,449**	
Foreign currency (3)														
Assets	117	5	9	-	-	-	-	-	-	-	131	-	131	0.57%
Liabilities	103	5	3	-	-	-	-	3	-	-	114	10	124	-
Difference	**14**	**(-*)**	**6**	**-**	**-**	**-**	**-**	**(3)**	**-**	**-**	**17**	**(10)**	**7**	**-**
Of which: difference in USD	(-*)	2	5	-	-	-	-	(3)	-	-	4	(9)	(6)	
Total														
Assets**	8,191	2,907	3,120	890	388	122	60	4	-	-	15,682	409	15,893	4.16%
Liabilities	8,199	2,437	2,182	291	70	6	16	24	16	12	13,253	128	13,437	**0.77%**
Difference	**(8)**	**470**	**938**	**599**	**318**	**116**	**44**	**(20)**	**(16)-**	**(12)**	**2,429**	**281**	**2,456**	
**Of which: debtors in respect of credit-card activity	8,037	2,751	3,068	886	388	119	60	4	-	-	15,313	(4)	15,111	

* 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 11 million (December 31, 2014 - 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 similar 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, 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**

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, 2015				
		Fair value (a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	69	48	21	-	69
Debtors in respect of credit-card activity, net	15,111	-	-	15,097	15,097
Securities (b)	19	12	-	7	19
Other financial assets	267	-	38	229	267
Total financial assets	***15,466**	**60**	**59**	**15,333**	**15,452**
Financial liabilities:					
Credit from banking corporations	323	17	306	-	323
Creditors in respect of credit-card activity	12,116	-	-	12,092	12,092
Other financial liabilities	877	-	131	743	874
Total financial liabilities	***13,316**	**17**	**437**	**12,835**	**13,289**

* Of which: assets and liabilities in the amount of NIS 104 million and NIS 28 million, respectively (2015 – assets and liabilities in the amount of NIS 60 million and NIS 17 million, respectively), whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Notes 27B and 27C below.

** Reclassified.

(a) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

(b) Includes shares for which no fair value is available, which are presented at cost, net of impairment, in the amount of NIS 7 million (2015 – NIS 7 million)

Note 27B – Items Measured at Fair Value on a Recurring Basis (1) - Consolidated

In NIS millions

	December 31, 2015		
	Fair-value measurements using:		
	Prices quoted on an active market (Level 1)	Other significant observable inputs (Level 2)	Total fair value
Assets			
Securities available for sale	13	-	13
Total assets	**13**	**-**	**13**
Liabilities			
Liabilities in respect of derivative instruments	-	-*	-*
Total liabilities	**-**	**-***	**-***

	December 31, 2015		
	Fair-value measurements using:		
	Prices quoted on an active market (Level 1)	Other significant observable inputs (Level 2)	Total fair value
Assets			
Securities available for sale	12	-	12
Total assets	**12**	**-**	**12**
Liabilities			
Liabilities in respect of derivative instruments	-	-*	-*
Total liabilities	**-**	**-***	**-***

* Amount less than NIS 0.5 million.
(1) During the years ended on December 31, 2016 and 2015, 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 2016 and 2015, 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 and in the fourth quarter of 2015.

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries

In NIS millions

A. Balances

	December 31, 2016									
	Interested parties						Related parties			
	Controlling shareholders		Key executives		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

A. Balances (cont.)

	December 31, 2015									
	Interested parties						Related parties			
	Controlling shareholders		Key executives		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	57	633	-	-	-	-	-	-	-	-
Debtors in respect of credit-card activity, net (1)	-	-	1	1	222	224	19	19	-	-
Securities	-	-	-	-	-	-	-	-	7	9
Investment in associates	-	-	-	-	-	-	1	3	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Liabilities										
Credit from banking corporations	92	323	-	-	-	-	-	-	-	-
Creditors in respect of credit activity	71	93	-	-	-	-	-	-	917	917
Other liabilities	3	6	14	14	531	531	-	-	-	-
Shares (included in equity)	-*	-*	-	-	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	17,232	17,492	8	8	-	-	41	43	-	-
Guarantees given by banks	5,555	5,555	-	-	-	-	-	-	-	-
Guarantees given by the Company	13	13	-	-	-	-	-	-	-	-

* Amount less than NIS 0.5 million.

(1) Transactions with related parties were performed in the normal course of business, at terms similar to those of transactions with entities unrelated to the Company.

(2) 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 30 million (highest balance during the year - NIS 44 million).

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In NIS millions

B. Summary of Results of Business with Interested Parties and Related Parties

	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**

	For the year ended December 31, 2014			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associate companies	Others(1)
Income from credit-card transactions	-	-*	-*	94
Net interest (expenses) income	1	-*	(2)7	(-*)
Other income	3	-	-	20
Operating expenses	(7)	-	-	-
General and administrative expenses	(3) -	(21)	-	-
Payments to banks	(225)	-	-	-
Total	**(228)**	**(21)**	**7**	**114**

* Amount less than NIS 0.5 million.

(1) The Company has been implementing Section 80 of the Public Reporting Directives since January 1, 2015. Until 2015, the Company implemented the provisions of IAS 24.

) In respect of credit to merchants.

(3) In addition, in 2016, 2015 and 2014, expenses in respect of current account settlement for professional services, in the amounts of NIS 6 million, NIS 5 million and NIS 6 million, respectively.

(4) Exclusive of a payment in respect of the part of the consideration received in Bank Hapoalim from the sale of Visa.

Note 28 – Interested Parties and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In NIS millions

C. Benefits for Interested Parties

	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	-	-	22	24

(1) Of which: short-term employee rights - NIS 17 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	-	-	19	20

(1) Of which: short-term employee rights - NIS 13 million; post-employment benefits - NIS 1 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 2 million; and share-based payment - NIS 1 million.

	For the year ended December 31, 2014			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	21	23

(1) Of which: short-term employee rights - NIS 15 million; post-employment benefits - less than NIS 0.5 million; severance benefits - less than NIS 0.5 million; other long-term benefits - NIS 4 million; and share-based payment - NIS 2 million.

In addition, in 2016, the Company had salary and related expenses in the amount of approximately NIS 48 million (NIS 48 million and NIS 45 million in the years ended December 31, 2015 and December 31, 2014, respectively) in respect of employees on loan from Bank Hapoalim (2016 - 86 employees, 2015 - 102 employees and 2014 – 105 employees).

D. Information Regarding Transactions and Balances with Related Parties and Interested Parties

- See Notes 20-21 – Employee rights and Share-Based Payment.
- See Note 23 – Contingent Liabilities and Special Agreements.
- 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.

Note 29 – Events after the Financial Reporting Date

In February 2017, after the balance sheet date, subject to the approval of the general meeting, the Company's Board of Director decided to declare a dividend of NIS 230 million.

Note 30 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2016	2015
Total assets	**17,943**	**16,802**
Total liabilities	**15,292**	**14,360**
Equity	**2,651**	**2,442**
Nominal net profit	**229**	**252**

Isracard Ltd. and its Consolidated Companies

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

For the year ended December 31, 2016

ISRACARD

List of Tables

The Board of Directors

During 2016, the Board of Directors of the Company continued to outline the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

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.

In addition, the Company was informed that, pursuant to the Bank's resolution, members of the company management who are employees on loan from the Bank to the Company must retire from the Bank for the purpose of their recruitment as employees of the new company in the coming months.

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 2016, 22 meetings of the plenum of the Board of Directors and 49 meetings of the committees of the Board of Directors were held.

Directors with financial and accounting expertise

Pursuant to the regulations of the Banking Supervision Department in the Public Reporting Directives, the Company is obliged to give details of the minimum number of directors with "financial and accounting expertise", which has been determined by it which is appropriate for the Board of Directors and in the Audit Committee. The Board of Directors has established that the appropriate minimum number of directors with financial and accounting expertise on the Board of Directors and the Audit Committee will be two directors.

It should be noted that, as of the reporting date, the number of directors who have financial and accounting expertise, according to their education, skills and experience, is nine directors. The number of directors who have financial and accounting expertise, according to their education, skills and experience, in the Audit Committee is two directors. (As of the balance sheet date, December 31, 2016, there were nine directors and two directors, respectively.)

Members of the Board of the Company

Ronen Stein Serves as Chairman of the Board of Directors from May 15, 2016.

Member of Management of Bank Hapoalim, Deputy CEO, Head of Retail Division since February 14, 2016

Serves as director in Isracard, Poalim Express and Europay since February 14, 2016 and as Chairman of the Board of Directors since May 15, 2016.

Also serves as Chairman of the Board of Directors of Poalim Ofakim Ltd. and Poalim Mortgages Insurance Agency (2005) Ltd. and as a member of the Executive Committee of the Round Up Association.

Served as CEO of the credit card companies: Isracard, Poalim Express and Europay from February 1, 2015 to February 1, 2016.

In addition, in the past five years, or part thereof, before the beginning of his term of office as CEO of the companies in the Isracard Group, served as Manager of Retail Banking Sub-Division in Bank Hapoalim, and prior thereto, fulfilled a number of management positions in Bank Hapoalim.

Also served as Chairman of the Board of Directors of the companies: Tzameret Mimunim Ltd., Isracard Mimun Ltd., and Isracard (Nechasim) 1994 Ltd. and as director in Global Factoring Ltd., but does not serve in them today.

Ll.B. - Interdisciplinary College, Herzliya.

B.A. Economics – Hebrew University in Jerusalem.

Holder of investment consulting license – Israel Securities Authority

Holder of license to practice law.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. R. Stein, he is not a family member of another interested party in the corporation.

Avi Idelson Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies.

External director in the Company's Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department.

Serves as Member of the Board of Directors of the Company since January 31, 2010, 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 and as director in, Avi Idelson Management and Consulting Ltd.

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.

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 and member of the Israel Bar Association. Lawyer To the best of the knowledge of the Company and of Mr. E. Kahana, he is not a family member of another interested party of the corporation.
Itzhak Amram	Serves as member of the Board of Directors of the Company since September 25, 2011. External director of the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. 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. 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 under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department, and a member of its Audit Committee. 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 member of the Board of Directors of the Company 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.

External director on the Board of Directors of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department.

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.

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 (from May 29, 2012) and Poalim Express (from October 31, 2011).

Serves as member of the Audit Committee of the Board of Directors of Europay; and as member of the Credit Committee and Audit Committee of the Board of Directors of Poalim Express.

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 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.

Serves as member of the Board of Directors of the Company since September 2, 2013 and as Chairman of the Risk Management Committee of the Board of Directors of the Company since January 21, 2015.

Also a member of the boards of directors of the following companies: Europay, Poalim Self Service Ltd., Poalim Mortgages Insurance Agency (2005) Ltd.

M.B.A., specialized in finance and strategy, Tel Aviv University.

B.A. in Accounting and Economics, Tel Aviv University;

Certified Public Accountant

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. G. Kalif, he is not a family member of another interested party of the corporation.

Mati Tal

Member of the Board of Directors of the Company.

Serves as director in the Company since May 2014 and as member of the Credit Committee since December 2014 and a Chairman of the committee since November 25, 2015.

Also serves as director on the boards of directors of the following companies: Europay, Ashtrom Group Ltd. and Chairman of the Audit Committee, Remuneration Committee and Balance Sheet Committee in the Ashtrom Group

Acts as Chairman of the Shema Association for rehabilitation and Treatment of hearing impaired children and Youth.

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.

Avraham Kochva

Serves as director in the Company since February 2015.

Serves as member of management of Bank Hapoalim, Deputy CEO of Bank Hapoalim since February 14, 2016. Serves in the position as Head of the Innovation Division in Bank Hapoalim.

Also serves as director on the Board of Directors of Europay.

In the last five years, or during part thereof, served as member of management of Bank Hapoalim, Deputy CEO and Head of the Technology and Computer Division in Bank Hapoalim, and prior thereto, as Sub-Division Manager in Bank Hapoalim.

M.B.A. from Derby University, England

B.A. in Economics and Political Science from Bar Ilan University.

Graduate of TIM Management Course from the Technion in Haifa.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. A. Kochva, he is not a family member of another interested party of the corporation.

Ronit Meiri-Harel Serves as director on the Board of Directors of the Company and as member of the Risk Management Committee of the Board of Directors since April 15, 2015.

Also serves as director on the Board of Directors in the companies, Europay and Poalim Express

Also serves as Manager of the Strategy Division and organizational DMO – COO Division in Bank Hapoalim B.M., and prior thereto, served as Manager of the Trading and Brokerage Rooms – Financial Markets Division in Bank Hapoalim B.M.

Also, in the past five years, or during part therein, served as director in the Registration Co of Bank Hapoalim B.M., as Alternate director on the Board of Directors of the Israel Securities Authority in Tel Aviv and as director on the Board of Directors of Maof Clearinghouse Ltd., but no longer serves thereon.

M.B.A (specializing in Finance) – Tel Aviv University.

B.A. in Economics - Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Ms. R. Meiri-Harel, she is not a family member of another interested party of the corporation.

Zion Ezer Serves as director on the Board of Directors of the Company since April 16, 2015.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department. 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.

Yoram Weissbrem	Serves as director on the Board of Directors of the Company since January 20, 2016, and as member of the Risk Management Committee of the Board of Directors since December 11, 2016. Also serves as director on the Board of Directors of Europay. Served as Secretary of Bank Hapoalim from April 4, 1995 to June 30, 2015. Served as director on the board of directors of the following companies: Bitzur Ltd. Opaz Ltd., Poalim Nechasim (Shares) Ltd., Tarshish 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. 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. Director with accounting and financial expertise. To the best of the knowledge of the Company and of Mr. Y. Weissbrem , he is not a family member of another interested party of the corporation.
Dan Alexander Koller	Served as Chairman of the Board of Directors of the Company and as Chairman of the Credit Committee of the Board of Directors of the Company from August 10, 2014 to February 15, 2016. Also served in the position of Chairman of the Board of Directors of Europay and the Board of Directors of Poalim Express and Chairman of the Credit Committee of the Board of Directors of Europay and Poalim Express, but no longer serves thereon. B.A. and M.A. (with honors) in Economics and Business Administration from the Hebrew University in Jerusalem Mr. Dan Alexander Koller has accounting and financial expertise. To the best of the knowledge of the Company and of Mr. D. Koller, he is not a family member of another interested party of the corporation.

Ari Pinto Served as Director on the Board of Directors of the Company until January 22, 2016.

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 Company)

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 Europay.

Dr. in Philosophy – Dr. in Public Administration – Bar Ilan University.

MBA from Bar Ilan University.

B.A. in Law from Tel Aviv University

B.A. in Accounting from Tel Aviv University,

To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.

Eli Zahav	Member of management of the Company, VP Credit and Financing from August 15, 2016. Also serves as member of management, VP Credit and Finance in Europay and Poalim Express, Serves as Director on the boards of directors of the following companies: Tzameret Mimunim Ltd., The Israel Spirit (R.A.). In his previous position, served as Sub-Division Manager in the Corporate Division in Bank Hapoalim B.M. B.A. in Law – Ben-Gurion University B.A. in Economics and Political Science – Bar Ilan University To the best of the knowledge of the Company and of Mr. E. Zahav, he is not a family member of another interested party of the corporation
Amir Kushlevitz-Ilan	Member of the Management of the Company since February 2011. VP Risk Management and Security and Chief Risk Officer. Also serves as member of management, VP Risk Management and Security and Chief Risk Officer in Europay and Poalim Express. M.B.M.B.A., Ben Gurion University. B.Sc., Aeronautics and Space Engineering, Technion. To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan is not a family member of another interested party of the corporation.
Hagar Ben-Ezra	Member of the Management of the Company since August 2016. VP Sales and Service in Europay and Poalim Express since August 2016. Also serves as member of management, VP Sales and Service in Europay and Poalim Express. In the past, served as Deputy CEO of Service in Bituach Yashir and VP Service in Hertz. B.A. in Social Science – Ramat Gan College.

To the best of the knowledge of the Company and Ms. H. Ben-Ezra, she is a family member of another interested party of the corporation.

Maora Shalgi

Member of the Management of the Company, VP Human Resources, since May 1, 2011.

Also serves as member of management, VP Human Resources in Europay and Poalim Express.

M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University

B.A. in Social Sciences and Liberal Arts, Open University.

To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.

Meirav Kalifar Peretz

Member of the Management of the Company, VP Marketing from June 1, 2014.

Also serves as member of management, VP Marketing in Europay.

Since 1995, has fulfilled a number of positions in Bank Hapoalim B.M.

In her previous position, before the beginning of her term of office in Isracard, served as Manager of the Marketing and Strategic Planning Headquarters of the Retail Division in Bank Hapoalim B.M. (2013-2014).

M.B.A., Tel Aviv University.

B.A. in Economics –Tel Aviv University.

To the best of the knowledge of the Company and of Ms. M. Kalifar Peretz, she is not a family member of another interested party of the corporation.

Nira Schmidt-Manor

Member of management of the Company, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) from July 3, 2016.

Also serves as member of management, VP Corporate Sub-Division (formerly, the Commerce Sub-Division) in Europay and Poalim Express.

From 1997, and until the commencement of her term of office in the Company, fulfilled various positions in Bank Hapoalim B.M., and in her previous position, before the commencement of her term of office in the Company, served as Manager of the Marketing and Strategy Headquarters – Corporate Division in Bank Hapoalim B.M. (2014-2016).

M.A. (with honors) – Employment Studies – Tel Aviv University.

B.A. (with honors) - Social Work School – Tel Aviv University

To the best of the knowledge of the Company and of Ms. N. Schmidt-Manor, she is not a family member of another interested party of the corporation.

Ami Alpan

Member of the Management of the Company since February 27, 2007.

Manager of Regulation and Special Projects.

Also serves as member of management. Manager of Regulation and Special Projects in Europay and Poalim Express.

Serves as director in the following companies: Life Style - Customer Loyalty Club Ltd., Life Style Financing Ltd., Store Alliance.Com Ltd., Com Ltd. I.D.D.S and Tzameret Mimunim Ltd.

M.B.A., Tel Aviv University

B.A. in Management and Economics, Tel Aviv University.

To the best of the knowledge of the Company and of Mr. A. Alpan, he is not a family member of another interested party in the corporation.

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 and Administration in Europay and Poalim Express.

Serves as director in the following companies: Isracard (Nechasim) 1994 and Isracard Mimun.

In his previous position, acted as VP Finance of Harel Finances. In the past, served as manager of the Corporations Department in the Israel Securities Authority.

M.B.A. (specialized in finance), Hebrew University of Jerusalem.

B.A. in Accounting and Economics, Hebrew University of Jerusalem.

Certified Public Accountant

To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party in the corporation.

Shai Vardi

Member of management, VP Technologies from June 6, 2016.

Also serves as member of management, VP Technologies in Europay and Poalim Express.

In his previous positions, acted 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.

Ronen Stein

Served as CEO of the Company from February 1, 2015 to February 1, 2016 and serves as Chairman of the Board of Directors in the following companies: Isracard, Poalim Express and Europay from May 15, 2016.

For further details, see Chapter "Members of the Board of Directors of the Company".

Ron Cohen

Served as member of management. VP Credit and Finance from February 27, 2007 to August 15, 2016.

Also served as member of management and VP Credit and Finance in Europay and Poalim Express.

Served as director in the board of directors of the following companies: Tzameret Mimunim Ltd.: Global Factoring Ltd.

Serves as Director on the Board of Directors of Kidum Mivne Iguach Ltd.

In his previous position, prior to the commencement of his term of office in the Company, served as Customer Relations Manager in the Corporate Division in Bank Hapoalim B.M.

Serves as CEO of Tzameret Mimunim from August 15, 2016.

M.B.A. in Marketing and Finance – Hebrew University, Jerusalem.

B.A. in Economics and International Relations – Hebrew University, Jerusalem.

To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party in the corporation.

Oren Cohen Butensky

Served as member of management of the Company, VP Sales and Customer Service, from June 2011 to August 15, 2016.

To the best of the knowledge of the Company and of Mr. O. Cohen Butensky, he is not a family member of another interested party in the corporation.

Vicky Levy

Served as member of the management of the Company, VP of Commerce, from January 1, 2014 to July 3, 2016.

To the best of the knowledge of the Company and of Ms. V. Levi, she is not a family member of another interested party in the corporation.

Ronen Zaretsky

Served as member of the management of the Company, VP Technologies, from December 18, 2005 to July 9, 2016.

To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party in the corporation.

Internal Audit

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

Details of the Internal Auditor – Zeev Hayo has served as Internal Auditor of the Company since July 31, 2014.

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

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

Reporting responsibility of the Internal Auditor – The Chief Internal Auditor reports within the organization to the Chairman of the Board of Directors.

Work plan – Internal auditing is conducted according to an annual work plan and a three-year long-term work plan. The work plan for 2016 was derived from the multi-year plan, which is based, inter alia, on the following: risk assessment at audited units; a survey of operating risks; an updated organizational structure of the Company; a round of audits at 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 3.5 auditor positions were invested in the Company and its subsidiaries during 2016. 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 2015 was submitted to the Company in February 2016. A summary of audit activities for 2016 is expected to be submitted to the Audit Committee during the first quarter of 2017.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

In addition, any significant deficiencies discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors. The reports are signed by the Chairman of the Board of Directors, the CEO of the Company, and the Chief Accountant.

Auditors' Fees

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

	Consolidated		The Company	
	2016	**2015**	**2016**	**2015**
	(In NIS thousands)			
For audit activities[3]:				
Joint auditors	1,914	1,918	1,789	1,798
Total	1,914	1,918	1,789	1,798
For services connected to the audit				
Joint auditors	33	259	33	125
For tax services[4]:				
Joint auditors	139	82	124	60
For other services[5]:				
Joint auditors	143	120	143	120
Total	315	461	300	305
Total remuneration of auditors	**2,229**	**2,379**	**2,089**	**2,103**

(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.

Salary and Benefits of Office-holders[(1)]

Table 2 – Salaries and Benefits of Officers (1)

The following table lists the salaries, compensation, value of benefits, employer contributions, and provisions for the recipients of the highest salaries among the senior officers of the Company, in thousands of NIS.

Salaries of Senior Office-holders for the Year Ended December 31, 2016

							Loans granted under benefit 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 (2)	100	81	-	21	10	212	-	-	-	13
Meora Shalgi	676	204	1	89	1,655	2,625	-	-	-	2
Dalit Gefen (4)	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 (5)	454	312	-	104	513	1,383	-	-	-	9
Amir Kushlevitz	578	307	-	140	313	1,338	-	-	-	9

Table 2: Salaries of Senior Office-holders for the Year Ended December 31, 2015

							Loans granted under benefit 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 31.12.15	Average to maturity (in years)	Benefit granted during the year (8)	Loans Granted under ordinary conditions (9)
Ronen Stein (2)	1,357	1,627	-	246	558	3,788	-	-	-	12
Vicky Levy	817	417	231	171	264	1,900	-	-	-	73
Ron Cohen	759	325	239	38	375	1,736	-	-	-	34
Ronen Zaretsky	772	554	-	70	240	1,636	-	-	-	13
Meirav Kalifar Peretz	708	432	71	43	238	1,492	-	-	-	36

1. This table presents the total cost of salaries in the Group in respect of office-holders appearing above.
2. Mr. Ronen Stein served as CEO of the Company from February 2015 to the end of January 2016. From January 2016, he serves as Chairman of the Board of Directors and receives his salary from Bank Hapoalim only.
3. Dr. Ron Weksler serves as CEO of the Company from February 2016.
4. Ms. Dalit Gefen serves as CEO of a subsidiary from March 2016. Some of the above payments are paid by Bank Hapoalim.
5. Mr. Eli Zahav serves as VP Credit and Financing from August 2016.
6. Bonuses, as described in Note 20D and 20E to the Financial Statements. In 2016, 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.
7. Share-based payment transactions, as described in Note 21(1)A and 21(1)B to the Financial Statements.

8. 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.

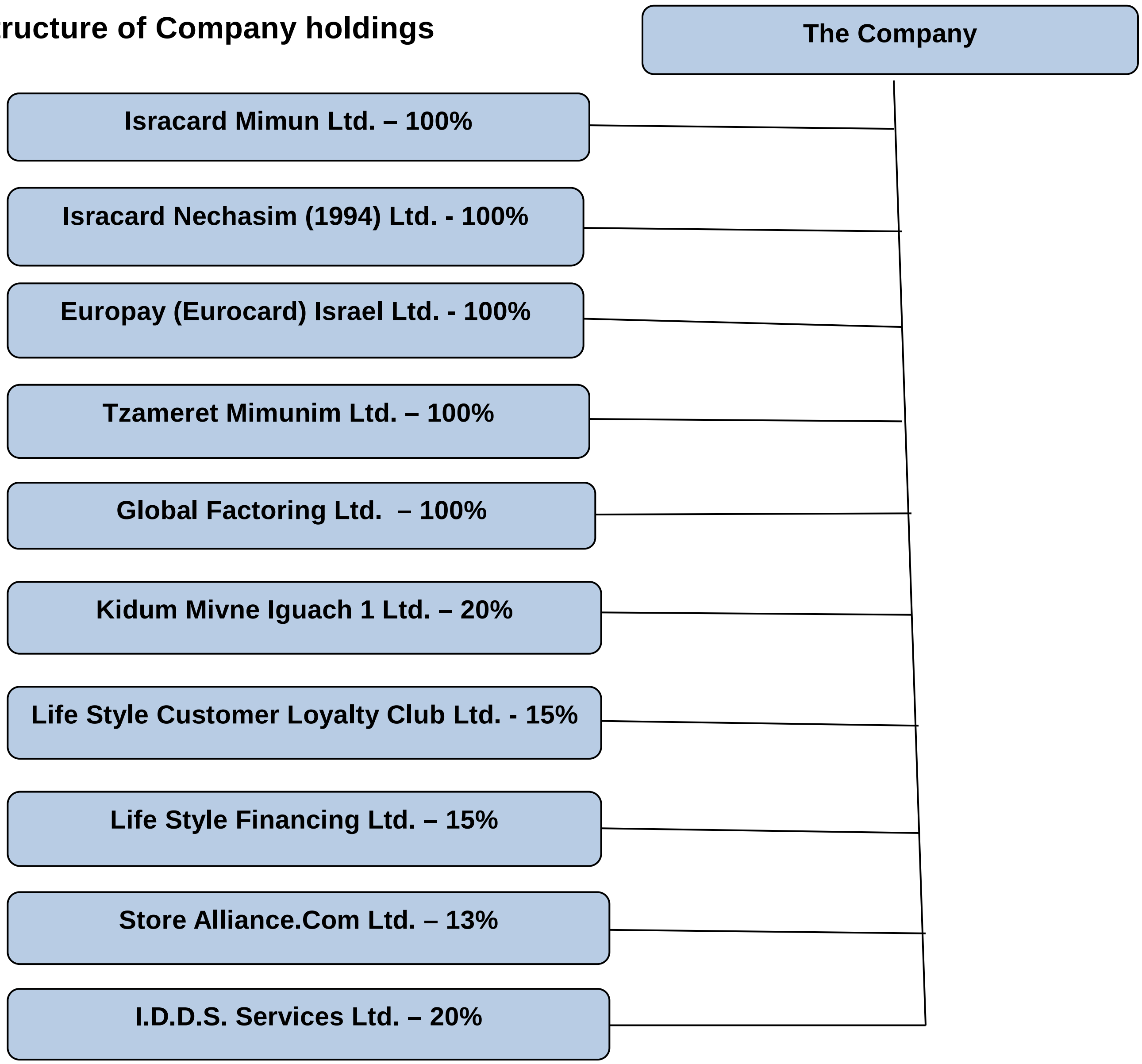
9. The data represent credit-card balances during the ordinary course of business as at December 31.

* Bank Hapoalim is subject to the Remuneration to Office-Holders in Financial Corporations Law. The effect of the said law was in respect of the CEO of the Company, being an employee on loan from Bank Hapoalim, and as such, 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 holder of the control permit in Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation pursuant to the Banking Law (Licensing), 5741-1981.

Fixed assets

The Company's headquarters are located in an office building on Hamasger Street, Tel Aviv. As noted, this office building is owned by Isracard Nechasim and N.T.M. Nichsei Tachbura Ltd. in equal non-specific parts. Isracard Nechasim rents most of the property to the Company, and the remainder of the property to Bank Hapoalim and to a fellow subsidiary company. In addition, the Company rents additional offices for its everyday needs, offices used as backup sites for its operations, and regional offices mainly used as offices of sales representatives.

The Company's material fixed assets include computers, information systems and infrastructures, communications equipment and peripheral equipment used in the Company's activities. These systems include mainframe computers (including for backup purposes), open systems, hardware, and software used by the Company in its day-to-day operations in issuance and clearing and in operating credit-card arrangements. These systems are in line with the technical specifications defined by the international organizations. For further details, see Note 15 to the financial statements above.

Intangible Assets

The Company owns the trademark, "Isracard", and holds long-term licenses from the international organizations, MasterCard and Visa, to issue and clear MasterCard and Visa credit cards in Israel. In addition, the Company has rights to several trademarks related to credit cards which it issues, clears, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards; imprints, images, or logos appearing on credit cards; the Company's publications; documents used as means of payment and collection; etc.

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

Human Capital

Organizational Structure

The organizational structure of the Company consists of nine functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains divisions, subdivisions, and sections, according to the nature of its activity, which report to the head of the unit.

Company Personnel

Total employee positions at the Company include:

(1) Employees employed under collective agreements and/or personal employment contracts signed with the Company or with Europay.

(2) Employees of Bank Hapoalim on loan to the Company – in addition to labor laws and expansion orders, the terms of employment of the majority of the aforesaid employees on loan are regulated in the Labor Constitution for Workers of Histadrut Institutions, in collective agreements, and in various agreements concerning wage terms and other benefits.

(3) External personnel.

Table 3 – Data of the number of employee positions of the Company in terms of full-time positions

	2016	2015
Average positions on a monthly basis	1,207	1,260
Total positions at year end	1,232	1,267

The number of employees includes positions allocated to other companies in the Group through expense-sharing arrangements.

In calculating the number of positions, overtime for which overtime wages are paid based on specific reports (not on a global basis) was taken into account.

Trends in Human Resources

Human resources strategy emphasizes organizational stability, with the integration and cultivation of the values of upholding the ethical code, openness, and transparency, along with innovation and achievement, while connecting the workforce with the Company's business objectives.

During 2016, the Company continued to maintain this policy, through:

1. Labor relations – Stable and quiet labor relations were maintained and a continuing dialog with partners to this system, with a shared purpose of understanding and an overall organizational vision.
2. Development of strategic partnerships with the various departments, in order to support the Group's objectives.
3. Examination of changes in human-resources policy aimed at achieving improved efficiency and cost savings.
4. Encouragement of employees' efforts, 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 to the Company, with an emphasis on values, such as mutual trust and respect. This year, too, the Company offered a range of activities for the well-being of employees and their families throughout the year.
7. Leading organization-wide processes in response to changes and in support of the Group's strategy, including adaptation of recruitment and training processes and guidance of the change with support for managers. Development of an experiential, varied and unique learning environment; adapted to the Company's goals.
8. Continuing the assimilation of the ethical code and addressing the regulatory provisions regarding accessibility and corporate responsibility.
9. 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.

Fostering employee satisfaction and involvement

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

The Company routinely conducts a range of activities and initiatives, in collaboration with the various divisions, with the aim of encouraging employee involvement in the Company's activity and operating results. This involvement is reflected in, among other things, increased motivation to improve sales, suggest new ideas for improving processes.

One of the core values of the Isracard Group is the provision of quality service – to our external and internal customers. Further to the company-wide internal service survey conducted a year ago, in 2016, the Company initiated in 2016 a process of strengthening the sense of partnership and the creation of an overall commitment to the internal and external service.

Corporate Responsibility, Ethics and Regulation

The Company has published its second corporate responsibility report. The report presents a comprehensive review of the Isracard Group in this field and the effects on the Group's stakeholders in 2014-2015.

Following the publication of the report, the Group received a special award from the Corporate Responsibility Institute in Israel, in recognition of the Group's achievement as being one of the reporting pioneers among the corporations in Israel.

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

Organizational Development and Professional Training

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

In 2016, we placed emphasis on adapting training to the changing challenges and business environment; improvement of service and sales skills of service representatives; assimilation of new products and services. The Company also worked on training and enhancing the knowledge of employees and executives in various roles: and providing tools encouraging creativity and openness to innovation; imparting sales skills to various groups within the Company and providing in-depth professional knowledge

Promotion of Diversity

The Company has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2016, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, open to others and to those who are different, and the creation of a tolerant and dignified community of employees.

Isracard in the Community

As 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:

The annual telethon for the "Larger Than Life" Association, which become a tradition, with the participation of employees and their families, using the Company's call-center service.

Various collaborations with the "Latet" Association.

Sponsorship of a "Latet Special", a social culinary project, the first of its type.

Hosting Holocaust survivors in Isracard House for festive meals, with the participation of employees of the Company in a voluntary capacity, and in collaboration with the "Latet" Association.

Packaging food parcels and donating them to needy families and lone soldiers.

Round Up – Simply to do good – the Isracard Group takes steps to raise public awareness to contributing to the community and assists the activity of the "Round Up for Good" Association, which enable the public to round up any transaction by credit card and to donate the difference to the association or a cause close to the donor's heart.

Volunteering of hundreds of employees in various associations as part of activity in "a day of good deeds"

Adopting the patrol battalion of the Nahal Brigade as part of the "Adapt a warrior" project, providing ongoing support for the welfare of the battalion and its soldiers, now, in its twelfth year. And many more activities.

Material agreements

One of the main projects in which the Company was engaged is the relocation of the Company's principal computer site to new premises. This transfer has improved the protection and survivability option of the Company's main computer. The site to which the main computer has been transferred is a subterranean site protected against severe reference scenarios defined and approved by the Home Command. The site is operated remotely using advanced control and review monitoring systems.

The construction process has been completed and the site is active.

Restrictions, legislation, regulations and special material constraints

Restrictions and supervision on the Company's activity

As a company engaged in the issue and clearing of charge cards, in the operation of a charge card system and granting credit, the Company is subject to laws and directives in connection with activity in these areas. These laws impose obligations and restrictions on the activities of credit card companies, including the Company, in the areas of issuing and clearing charge cards. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, (Debit Cards) which regularizes the activity of credit-card companies, which are auxiliary banking corporations, and of banking corporations, for the purpose of operating a debit card system. In addition, credit card companies are subject to the provisions of other Proper Conduct of Banking Management Regulations from the File of Proper Conduct of Banking Management Regulations.

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

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

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

Below is reference to a number of relevant regulatory provisions for the report period having an impact on the Company's activity:

a. Antitrust issues – see Note 23C.1 to the financial statements above.

b. Regulatory initiatives – See Note 23C.2 to the financial statements above.

c. Legal proceedings and contingencies – See Note 23D to the financial statements above.

Description of the Company's business by operating segments

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

Credit card issuance segment

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

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

Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company and

Europay have agreements, including Bank Hapoalim (the parent company), Bank Mizrahi Tefahot Ltd. (hereinafter: "**Mizrahi Tefahot**"), Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., Union Bank Ltd. and U-Bank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. During the year, the Company renewed agreements with a number of clubs. With regard to regulatory influences on the segment, see also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under international licenses; (2) collaboration with banking corporations, particularly Bank Hapoalim, for the distribution and issuance of credit cards; (3) high-quality, experienced human capital; (4) quality of customer service; (5) an operational system including information systems, technologies, communications, and advanced infrastructures; (6) a technological level allowing response to changes and the development of new products; (7) a system of risk management and credit controls; (8) the ability to recruit and retain customers through a targeted marketing system; (9) agreements to establish customer clubs; and (10) operational efficiency and preservation of economies of scale.

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

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

Contractual Arrangements with Banking Corporations

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

Competition

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

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

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to address the requirements of the Company's customer segments and the needs of market, and the development of alternative products and services to compete with the customary means of payment, such as cash and checks; (3) reinforcement of the Company's status and image through advertising, benefits, and various offers for cardholders; and (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

The positive factors affecting the Company's competitive standing include among others, the following: (1) the Company and Europay are leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled and experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

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

The Credit-Card Clearing Segment

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

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

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

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

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

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

Competition

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

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

For further details on this matter, see the section “Restrictions and Supervision of the Company's Operations,” above. Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

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

In order to cope with the competition in this sector, the Company takes the following main measures: (1) a competitive, prudent fee policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to the merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems. The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the clearing service provider, and in formulating the overall perception of the Company by merchants.

Positive factors affecting the Company's competitive standing include the following, among others: (1) a marketing, sales, and service system specializing in providing suitable solutions for merchants while maintaining regular contact with them, and including professional, skilled, experienced human capital; (2) a brand with presence and power; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services;

During 2015, a number of services and products were developed and launched, adapted to the requirements of the business customers,, such as (a) "My Internet Store" venture (a collaboration with a third party) which enables merchants to construct a complete Internet sales site by communication to another factor, (b) the

MasterPass product – a means of payment for Internet transactions which permits secure payment to be made speedily by entering a user name and password, without entering full credit card details, (c) a kindergarten payment product which allows card holders to pay an educational institution via credit card, etc. and (5) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, regulation, technological improvements that create the possibility of development of alternative means of payment in areas such as payment through cellular phones, which may cause a decline in credit-card clearing; and merchants' ability to switch clearers for MasterCard, Isracard, and Visa brands at their discretion. For details regarding regulatory restrictions applicable to the Company under antitrust laws, see the section "Restrictions and Supervision of the Company's Operations," below.

The Financing Segment

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

The Financing Segment comprises two sub-groups determined according to the nature of the customer's activity: consumer credit for private customers, usually with relatively low volumes of financial activity; and corporate credit for businesses, whose credit needs are usually related to financing of their business operations. The types of credit products offered to these two groups naturally differ.

Consumer credit activity is primarily conducted through proactive marketing and advertising, offering the range of credit products for private customers. Products 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 - In the opinion of the Company, the main critical success factors in the Financing Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) matching of a relevant product offering to customers; (2) available sources of financing and the ability to raise capital; (3) management and development of a retail system that is available and accessible to customers, with an emphasis on the direct channels, in order to improve professional service, response times, etc.; (4) a system of risk management and credit controls; (5) an adequate system of controls in order to reduce risks; (6) collaborations with various business partners in the Israeli economy in the provision of financial services; (7) experienced, high-quality human capital; and (8) an operational system including advanced information systems, technologies, and infrastructures.

Key entry barriers in the operating segment - The key entry barriers in the Financing Segment are the following: (1) the need for financial resources, sources of credit, experience, and extensive knowledge in order to perform the required investments in the operating, financing, advertising, and marketing system and extensive investments in technological infrastructures; (2) the development and management of a credit rating and credit control system, and the collection of information allowing a risk level to be assigned to each customer; (3) the need for capital in order to comply with the directives of the Supervisor of Banks with regard to the ratio of capital to risk-adjusted assets; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

Alternatives for the products of the operating segment - Credit services and loans provided by various parties in the economy, either through banks or through other financial operators, serve as substitutes for the credit and financing services provided by the Company.

Competition

The Financing Segment is characterized by a high level of competition, encompassing banking institutions and other financial entities, such as finance companies, insurance companies, other credit-card companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required credit, and speed of response.

Other segment

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

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

Tel Aviv, February 26, 2017

Appendices to the Annual Report

Table 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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets(2)									
Cash on hand and deposits with banks	18	-*	-	184	-*	-	676	3	0.44
Debtors in respect of credit-card activity(3)	3,296	228	6.92	2,485	168	6.76	1,903	132	6.94
Other assets	277	14	5.05	216	12	5.56	165	10	6.06
Total interest-bearing assets	**3,591**	**242**	**6.74**	**2,885**	**180**	**6.24**	**2,744**	**145**	**5.28**
Non-interest-bearing debtors in respect of credit cards	12,387			11,990			11,803		
Other non-interest-bearing assets(4)	437			455			433		
Total assets	**16,415**			**15,330**			**14,980**		

* 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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	777	(9)	(1.16)	85	(6)	(7.06)	35	(-*)	-
Other liabilities	508	(-*)	-	464	(-*)	-	472	(1)	(0.21)
Total interest-bearing liabilities	**1,285**	**(9)**	**(0,70)**	**549**	**(6)**	**(1.09)**	**507**	**(1)**	**(0.20)**
Non-interest-bearing creditors in respect of credit cards	12,067			12,032			12,033		
Other non-interest-bearing liabilities(3)	505			428			396		
Total liabilities	13,857			13,009			12,936		
Total capital means	2,558			2,321			2,044		
Total liabilities and capital means	**16,415**			**15,330**			**14,980**		
Interest margin			6.04			5.15			5.08
Net return on interest-bearing assets in Israel	3,591	233	6.49	2,885	174	6.03	2,744	144	5.25

* 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, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	3,574	242	6.77	2,867	180	6.28	2,727	145	5.32
Total interest-bearing liabilities	1,250	(9)	(0.72)	516	(6)	(1.16)	485	(1)	(0.21)
Interest margin			6.05			5.12			5.11
CPI-linked Israeli currency									
Total interest-bearing assets	8	-*	-	8	-*	-	8	-*	-
Total interest-bearing liabilities	-	-	-	-	-	-	-	-	-
Interest margin			-			-			-
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	9	-*	-	10	-*	-	9	-*	-
Total interest-bearing liabilities	35	(-*)	-	33	(-*)	-	22	(-*)	-
Interest margin			-			-			-
Total activity in Israel									
Total interest-bearing assets	3,591	242	6.74	2,885	180	6.24	2,744	145	5.28
Total interest-bearing liabilities	1,285	(9)	(0.70)	549	(6)	(1.09)	507	(1)	(0.20)
Interest margin			**6.04**			**5.15**			**5.08**

* 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, 2016 against 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.

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

	Increase (decrease) due to change(1)		
	Quantity	Price	Net change
		In NIS millions	
Interest-bearing assets[(2)]			
Cash on hand and deposits with banks	(-*)	(3)	(3)
Debtors in respect of credit-card activity	39	(3)	36
Other interest-bearing assets	3	(1)	2
Total interest income	42	(7)	35
Interest-bearing liabilities[(2)]			
Credit from banking corporations	4	2	6
Subordinated notes	-	-	-
Other interest-bearing liabilities	(-*)	(1)	(1)
Total interest expenses	4	1	5

* 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

	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 associates 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 lower than NIS 0.5 million.

Table 5 - Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data (cont.)

In NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	345	359	329	326
Net interest income	50	45	41	38
Other income	12	8	18	19
Total income	**407**	**412**	**388**	**383**
Expenses (income)				
In respect of credit losses	14	5	1	12
Operating expenses	148	132	125	124
Sales and marketing expenses	57	67	48	63
General and administrative expenses	17	16	13	15
Payments to banks	101	93	88	90
Total expenses	**337**	**313**	**275**	**304**
Profit before taxes	**70**	**99**	**113**	**79**
Provision for taxes on profit	21	31	33	23**
Profit after taxes	**49**	**68**	**80**	**56**
The Company's share in profits of associate companies after effect of tax	-*	(2)	-*	-*
Net profit	**49**	**66**	**80**	**56**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**67**	**90**	**109**	**76**

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 6 - Consolidated Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

In NIS millions

	2015			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	69	65	62	247
Debtors in respect of credit-card activity	15,223	14,754	14,471	14,602
Allowance for credit losses	(112)	(107)	(105)	(109)
Debtors in respect of credit-card activity, net	**15,111**	**14,647**	**14,366**	**14,493**
Securities	19	20	20	20
Investments in associate companies	1	1	3	3
Buildings and equipment	252	260	273	272
Other assets	441	425	420	463
Total assets	**15,893**	**15,418**	**15,144**	**15,498**
Liabilities				
Credit from banking corporations	323	323	34	28
Creditors in respect of credit-card activity	12,126	11,833	11,894	12,273
Other liabilities	988	853	874	943
Total liabilities	**13,437**	**13,009**	**12,802**	**13,244**
Equity attributed to shareholders of the Company	2,456	2,409	2,342	2,254
Total capital	**2,456**	**2,409**	**2,342**	**2,254**
Total liabilities and capital	**15,893**	**15,418**	**15,144**	**15,498**