



Automated Banking Services Ltd

Quarterly Report For the Period Ended September 30, 2020

We are pleased to present to shareholders the report of the Board of Directors of Automatic Banking Services Ltd. (hereinafter: "the Company" or "Shva") as of September 30, 2020 and for the three- and nine-month periods then ended (hereinafter: "Reported Period") in compliance with the provisions of Regulation 48 of the Israel Securities Regulations (Periodic and Immediate Reports), 1970. This directors' report presents events and changes that occurred in the Company's position during the reported period and which had material impact on the interim financial information and the corporation's business report. This report is limited in scope and therefore should be read in conjunction with periodic report for the year ended December 31, 2019, which was published on March 30, 2020 (ISA reference number 2020-01-03260) ("the Company's 2019 Periodic Report"), which is presented in this report by way of reference.

1. Overview of corporate operation and business position

1.1 General

The Company was incorporated in Israel in 1978 as a private company under the Israel Companies Law. In early September 2019, after completing a public offering of its shares, the Company became listed and a 'reporting corporation', as this term is defined by the Securities Law. For information about the impact of becoming listed, the cancellation of a previous 'joint services company' license and the supervision applied by the Company over its payment system, see section 2 of the directors' report in the Company's 2019 Periodic Report.

The Company is operating a system that enables collection of information about charge card transactions from terminals at points of sale (POS), transfer of charge card transaction approvals, provide a clearing interface for charge card issuers and transfer approval for cash withdrawals from automated teller machines (ATMs). For more information about the different areas of activity of the Company, see section 3, Chapter A (Description of the Corporation's Business) in the Company's 2019 Periodic Report. The Company currently has a single operating segment (hereinafter: "the Clearing Segment"), which provides a number of services, as follows:

- (1) Operation of a bidirectional communication system between Clearing Customers and charge card issuers and retail businesses, for approval and collection of information of transactions performed using charge cards at points of sale (hereinafter, respectively: the "Approval and Collection Interface" and the "Approval and Collection Services").
- (2) Management and operation of a clearing interface.
- (3) Management and operation of a switching system connecting different ATM networks, including those operated by various banks, in a manner that allows transmitting approvals for cash withdrawal and information request performed using various ATMs (operated local by banks) regardless of the bank at which the customer has an account or the entity that owns the ATM (hereinafter: the "ATM Switch" and the "ATM Switching Services").
- (4) Development and distribution of the proprietary Ashrait PC and Ashrait PC EMV software applications, which serves as points-of-sale infrastructure to enable charge card transactions at places of businesses.
- (5) Terminal certification for use with Ashrait EMV – As a supplementary service to Clearing Customers for compatibility with the EMV standard (a set of specifications developed by international charge card industry organizations in order to provide a standardized and secure protocol for charge card payment transactions).
- (6) Until July 23, 2020, the communication protocol, as specified in paragraph 8.1.6 in the 2019 Periodic Report. For more information, see paragraph 1.5 below.

For more information about services of the Company, see section 3, chapter A (Description of the Corporation's Business) in the Company's 2019 Periodic Report.

1.2 Description of business environment

a. Impact of Coronavirus (COVID-19) on business activity

In early 2020, Coronavirus (COVID-19) began spreading worldwide, which the World Health Organization (WHO) announced as a pandemic. For more information about outbreak and its impact of the Company's business activity in the second quarter of 2020, see an immediate reported issued by the Company on May 20, 2020 on the impact of COVID-19 on its business results (ISA reference no.: 2020-01-050670), paragraphs 1.2 and 1.3 in the directors' report and note 1 to the interim information for the quarter ended June 30, 2020, as published by the Company on August 30, 2020 (ISA reference no.: 2020-01-086359) (hereinafter: the "Q2 2020 Interim Information"), which the information therein is present by way of reference, and also see paragraph 1.3 below.

b. Economic development in Israel

The Israel Consumer Price Index was down by 0.7% in the first nine months of 2020. Over the coming 12 months, inflation is expected to be between (0.2%) to 0.3%, depending on the extent to which the pandemic is contained.

The Bank of Israel (BoI) benchmark interest rate remained unchanged at 0.1% ever since it was lowered in April 2020.

From the beginning of the year to September 2020, the New Israeli Shekel (NIS) gained 0.43% against the US dollar and weakened against the Euro by 3.82%.

c. Global economic developments

In October 2020, the International Monetary Fund (IMF) revised up its global growth projection relative to the June 2020 update, stating that global GDP is expected to contract by 4.4% in 2020, with Israel contracting by 5.9%, the US by 4.3% and the Eurozone by 8.3%.

1.3 Updates to the 2019 annual report of the Company on the impact of COVID-19 on the business activity of the Company:

As said above, COVID-19 has rapidly spread worldwide since early 2020. In response, governments, including in Israel, implemented measures to curb the spread of the virus, such as posing tighter border controls and travel bans, quarantines and isolation, limiting gatherings and movement, lockdowns, limits on the activity of small businesses, shopping centers, government services, etc.

Operational readiness and business continuity

Since Coronavirus started spreading in Israel, the Company was proactive to maintain overall operational continuity in compliance with all restrictions and guidance, and while strictly protecting the health and wellbeing of all employees. Company site is divided into two separate working zones.

The Company has the infrastructure in place to have all of its employees work remotely, and it continues to have ongoing assessments by the emergency task force it set up, as well as by management and the board.

As of the date of issuing this report, the business activity of the Company is conducted as usual, with 70% of employees work from our offices and 30% work remotely (from home).

Impact of COVID-19 on business results of the Company in the Reported Period

The measures taken by the government to prevent transmission of COVID-19 have had a significant impact on the way consumers in Israel make purchases since the latter half of March 2020. For analysis of the change in the first half of 2020, see para. 1.3 in the Q2 2020 Interim Information. Beginning in May, thanks to gradual lifting of government restrictions, including reopening of shopping malls and other commercial centers, some improvement

was seen that lasted until the second lockdown was imposed in mid-September. This positive trend was reflected in the Company's revenue in the third quarter this year. As noted above, the second lockdown began in mid-September, but caused a shallower decline in the number of transactions relative to the first lockdown. Note that as discussed in para. 8.14 in Chapter A (Description of the Corporation's Business) in the Company's 2019 Periodic Report, customers of the Company are strong and acquire our services for the long-term.

For more information, forecasts and estimates of the Company regarding the impact of COVID-19 on its business activity, see below. The Company believes that it is not expected to be required to provide for impairment of accounts receivable due to the impact of COVID-19.

Impact of COVID-19 on liquidity, financial robustness and financing resources of the Company

In light of its NIS 142,866 thousand in liquid financial resources as of September 30, 2020, the Company does not expect its financial stability and financing resources to be impacted at this time or in the short-term.

The Company funds operations using its own resources and is not expecting to be required to receive credit from external entities. The Company believes that it is experiencing no cash flow difficulties driven by COVID-19 that may cause it to default on its obligations.

Forecasts and estimates of the Company regarding the impact of COVID-19 on business activity

Following reports issued by the Company in 2020 about fewer charge card transactions in April and May, beginning in May, the Company saw the number of transactions recover, driven by more domestic transactions (replacing overseas transactions), a trend that continues until mid-September. The imposition of the second lockdown period in Israel resulted in a decline in the number of transactions, yet that decline was smaller relative to the first lockdown. As of the date of issuing the report, the direction of activity across the entire local economy is uncertain, which is impacting the number of transactions.

Should COVID-related guidance by the Israel Ministry of Health becomes more drastic and/or the economy enters recession and/or other macro scenarios materialize, and more radical steps are taken, such as a nationwide or extensive lockdown, the Israeli economy may suffer wide-spread adverse consequences, resulting in significant hit to revenue and other business results later this year.

The above discussion about the impact of the spread of COVID-19 on the Company is forward-looking information, as this term is defined by the Israel Securities Law, 1968, and is an assessment that relies on the information available to the Company as of the date of publishing the financial statements. This information includes forecasts, assessments, estimates and other information that relate to future events and matters that are uncertain and not exclusively controlled by the Company ("Forward-Looking Information"). Key facts and data underlying this information concern the current position of the Company and its business, the situation in Israel that affects the activity of the Company, various regulatory guidance that apply to the Company and macroeconomic data, all as known to the Company on the date of this report. It is uncertain whether the expectations and assessments of the Company will eventually materialize, and its results of operations may be significantly different than the results that are indicated or implied above, among other factors, due to the intensity, scale, scope, duration of such circumstances, and the ability of the Company to manage them.

1.4 Activity of the Company in the Reported Period

Transactions with charge cards

Debit transactions – The number of debit transactions executed with all credit card companies.

Credit transactions – The number of credit transactions executed with all credit card companies.

Below are the total numbers of debit and credit transactions completed using the Ashrait system (in millions of transactions):

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	For the nine-month period ended September 30		For the year ended December 31,
	2020	2019	2019
Debit transactions	1,169	1,223	1,644
Credit transactions	12	12	16

ATM switching services

Number of balance checks and withdrawals – The number of times that holders of bank-issued charge cards check their account balance on ATMs of banks (hereinafter: the “Clearing Bank”), and the number of cash withdrawal requests that the Clearing Bank submitted, through the Company, to the issuing bank.

Amount – The cumulative total amount of withdrawal requests that Clearing Banks submitted through the Company to the issuing bank.

Below are total numbers of account balance checks and withdrawals (in thousands of transactions) and total amounts of withdrawal requests (in millions of NIS):

	For the nine-month period ended September 30		For the year ended December 31,
	2020	2019	2019
Debit transactions	45,556	55,020	72,853
Credit transactions	33,010	35,451	47,016

1.5 Material events during the Reported Period

- Communications protocol – Following the discussion in paragraph 8.1.6 in Chapter A (Description of the Corporation's Business) in the Company's 2019 Periodic Report, on March 24, 2020, the protocol-dedicated non-profit association (amuta) was registered with the Israel Registrar of Association.
- Transfer of rights of the Company to the EMV protocol – Following immediate report of the Company dated April 16, May 25 and July 23, 2020 (Ref. no. 2020-01-034372, 2020-01-052038 and 2020-01-072220, respectively), which is presented in this report by way of reference.
- On July 23, 2020, the Company transferred all its rights to the protocol to the association for no consideration. For more information about that transfer of rights, see note 3a(d) to the financial statements.
- On July 6, 2020, the Company published an immediate report (Ref. no. 2020-01-063751) informing that on July 5, 2020, the Tel Aviv District Court certified a class action against the Company and four banks regarding the legality of the cash withdrawal fee charged by the Company on using ATMs operated by the Company, located within a range of 500 meters from bank branches. For more information, see note 3(b)(1) to the financial statements.
- On July 29, 2020, the Company published an immediate report (Ref. no. 2020-01-074368) informing that on July 29, 2020, the Tel Aviv District Court handed down a decision approving the agreed-upon withdrawal by the plaintiff of the motion to certify a class action against the Company, without awarding costs. The motion to certify the class action was vacated and the personal claim by the plaintiff against the Company was also rejected. For more information, see note 3(b)(3) to the financial statements.
- On August 6, 2020, the Supervisor of Banks notified that he did not object to the appointment of Mr. Chen Haryati as Internal Control of the Company. For more information, see section 7 above.
- On August 16, 2020, the Company issued an immediate report on the outcomes of an annual and special general meeting of the Company's shareholders that was held on that date, and which approved the end of engagement with Horowitz, Idan, Sabo, Tevet and Cohen Tabach (Baker Tilly Israel) as independent auditors of the Company and appointment of Kesselman & Kesselman (PwC Israel) as the new independent auditors until the next annual shareholders' meeting; and approved the appointment of Ms. Shani Federman Terem as director of the Company for a three-year term, subject to approval of the Supervisor of Banks or if no objection to the appointment is raised. For more information, see report on calling the general meeting, as published by the Company on July 12, 2020 (Ref. no. 2020-01-079447) and the report about outcomes of the meeting dated August 16, 2020 (Ref. no. 2020-01-079447), both brought in this report by way of reference.
- On August 23, 2020, the Company published an immediate report (Ref. no. 2020-01-082900) according to which, on August 23, 2020, Mr. Elik Etzion notified the Company on his resignation from the Board of Directors effective on the date on which the term of his replacement will begin in the special general meeting that was held on November 2, 2020 (see below) and that appointment is approved by the Bank of Israel.
- On September 29, 2020, the position of the Competition Commissioner was filed to the Antitrust Court in relation to a motion filed by the Company and Masav to approve a restrictive arrangement. For more information, see note 3 to this financial information.

1.6 Financial position and results of activity

The following presents key information from the financial statements of the Company and explanations of main changes in statement of financial position items as of September 30, 2020 compared to December 31, 2019 (NIS in thousands):

	As of September 30 2020 (Unaudited)	As of December 31 2019 (Audited)	Change	Comments and explanations
Assets				
Cash and cash equivalents	36,446	32,687	3,759	The increase mainly stems from higher cash flows from operating activity less NIS 10 million used to grow the proprietary investment portfolio of the Company
Proprietary investment portfolio	106,420	98,478	7,942	The proprietary investment portfolio that was expanded early in the year, as indicated above, was impacted by volatility in the markets following COVID-19. For more information about the impact of COVID-19, see section 2 of this report.
Trade and income receivables	22,038	19,161	2,877	The increase mainly results from participation of customers in business development and higher levels of activity
Other accounts receivables	4,917	4,104	813	
Current tax assets	-	-	-	
Excess plan assets for post-employment benefits				
Property, plant and equipment, net	19,076	18,543	533	The increase is mainly due to purchase of new computers less periodic depreciation.
Intangible assets, net	3,288	3,919	(631)	The change is due to investment in software and intangible assets, less customer participation and periodic amortization.
Lease right-of-use assets	9,190	9,567	(377)	
Long-term prepaid expenses	3,378	2,910	468	Increase mainly arising from maintenance and support agreement for new computers.
Deferred taxes	1,877	1,083	794	
Liabilities and equity				
Current maturities for leases	752	793	(41)	
Trade payables	975	3,000	(2,025)	Decrease mainly arises from lower payments to suppliers.
Other payables	14,261	11,866	2,395	Increase mainly arises from higher accrued expenses and institutions
Income tax payable	42	2,195	(2,153)	This decrease is due to payment in the Reported Period for 2019.
Lease liabilities	8,581	8,815	(234)	
Retirement benefit obligation	2,348	1,766	582	
Liabilities to employees	2,647	2,569	78	
Equity attributed to shareholders of the Company	177,024	159,448	17,576	The increase in the Reported Period was driven by income earned in the Reported Period

1.7 Results of operations

The following are the key changes in profit and loss items for the period ended September 30, 2020 compared to the period ended September 30, 2019 (NIS in thousands):

	For nine-month period ended September 30		For the year ended December 31	Change compare to September 30	Comments and explanations compared to corresponding period last year
	2020	2019	2019	2019	
	(Unaudited)		(Audited)		
Revenue from services provided to credit card companies	57,413	55,280	73,909	2,133	The increase was driven by an uptick in activity during Q1 and Q3 2020, which was partially offset by the drop in activity in Q2 2020. For more information, see disclosure about impact of COVID-19 in section 1.3 of this report.
Revenue from services provided to others	5,649	5,735	7,684	(86)	
Total revenue	63,062	61,015	81,593	2,047	
Operational, administrative and general expenses	38,332	35,841	49,900	2,491	The increase is mostly due to additional workforce as part of implementing the strategic plan, increase in professional services expenses and higher hardware and software maintenance expenses for data security
Operating income	24,730	25,174	31,693	(444)	The slightly lower operating income is mainly due to trends discussed above.
Financial income (expenses), net	(1,347)	5,329	6,424	(6,676)	The shift from net finance income to net finance expenses in the Reported Period is mainly from decline of the Company's proprietary investment portfolio vs. growth in the corresponding period last year. Net finance expenses as presented in Q1 of 2020 decreased in the reported period due to appreciation of the portfolio in Q2 and Q3 2020.
Income before tax	23,383	30,503	38,117	(7,120)	The decline is mainly due to the net finance expenses in the Reported Period vs. net finance income in the corresponding nine months, mainly due to the performance of securities, as explained above.
Provision for income tax	5,460	6,734	8,753	(1,274)	
Net income attributed to shareholders	17,923	23,769	29,364	(5,846)	The decline was driven by the trends discussed above.
Net earnings per share	0.45	0.59	0.73		

1.8 Liquidity and sources of financing

The following are the key changes in cash flow items in the period ended September 30, 2020 compared to the period ended September 30, 2019 (NIS in thousands):

	For nine-month period ended September 30		For the year ended December 31	Comments and explanations compared to corresponding period last year
	2020	2019	2019	
	(Unaudited)		(Audited)	
Net income for the period	17,923	23,769	29,364	
Adjustments to income	11,645	6,166	8,819	Mainly arises from differences in finance income and expenses, resulting in the Reported Period from a sharp decline in the capital market, which created financing expenses to the Company, compared to finance income in the corresponding period last year and in 2019.
Cash flows before changes in asset and liability items and before finance and taxes	29,568	29,935	38,183	
Changes in asset and liability items	(3,202)	(3,764)	(2,370)	Negative cash flows in the Reported Period was mainly driven by prepayment for maintenance of new servers purchased by the Company
Cash flow from taxes and finance	(6,964)	2,801	(462)	Negative cash flow mainly arises from payment of current taxes and taxes for 2019.
Net cash provided by operating activity	19,402	26,302	35,351	The decrease in cash flows is due to the trends discussed above.
Net cash used in investing activity	(14,963)	(17,208)	(23,040)	Negative cash flow in the reported period is due to investment in the Company's proprietary investment portfolio and investment in property, plant and equipment.
Net cash used in financing activity	(680)	(698)	(846)	The negative cash flow is due to maturity of lease liabilities.

1.9 Financing sources

The Company finances all activity from using its own resources.

2. Exposure to and management of market risks

Market risk exposure of the Company

No material changes occurred relative to the disclosure provided in the 2019 Periodic Report of the Company. The proprietary investment portfolio as of September 30, 2020 was NIS 106,420 thousand, compared to NIS 98,478 thousand as of December 31, 2019. Cash and bank deposits as of September 30, 2020 was NIS 36,446 thousand, compared to NIS 32,687 thousand as of December 31, 2019. The value of the marketable securities portfolio, cash and bank deposits as of September 30, 2020 was NIS 142,866 thousand compared to NIS 131,165 thousand as of December 31, 2019.

Officer responsible for market risk of the Company

Officer responsible for market risk of the Company is Mr. Moshe Wolf, CEO of the Company. For more information about Mr. Wolf, see the Regulation 26A disclosure in Chapter D (Additional Details of the Corporation) in the 2019 annual report.

Market risk management policy of the Company

The overall responsibility for market risk management and oversight is of the Company's board of directors. For information about risk management policy, investment policy and oversight of market risk, see the directors and management report in the Company's 2019 annual report.

2.1 Fair value of financial instruments and sensitivity tests

2.1.1 Fair value of financial instruments

	As of September 30, 2020				
	NIS in thousands				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Other	Total
Assets					
Cash and bank deposits	36,446	-	-	-	36,446
Marketable securities	63,091	32,834	9,932	563	106,420
Trade and income receivable	22,038	-	-	-	22,038
Other receivables	2,343	-	-	-	2,343
Total financial assets	123,918	32,834	9,932	563	167,247
Current maturities of lease liabilities	-	752	-	-	752
Trade payables	975	-	-	-	975
Other payables	9,903	-	-	-	9,903
Lease liabilities	-	8,581	-	-	8,581
Total financial liabilities	10,878	9,375	-	-	20,253
Net fair value of financial instruments	113,040	23,459	9,932	563	146,994

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	As of September 30, 2019				
	NIS in thousands				
	Israeli currency		Foreign currency*		
	Unlinked	Linked	US dollar	Other	Total
Assets					
Cash and bank deposits	17,188	-	12,430	-	29,618
Marketable securities	47,630	42,054	7,368	715	97,767
Trade and income receivable	21,238	-	-	-	21,238
Other receivables	3,282	-	-	-	3,282
Total financial assets	89,338	42,054	19,798	715	151,905
Current maturities of lease liabilities	-	924	-	-	924
Trade payables	1,356	-	7,094	-	8,450
Other payables	6,594	1,246	-	-	7,840
Lease liabilities	-	9,757	-	-	9,757
Total financial liabilities	7,950	11,927	7,094	-	26,971
Net fair value of financial instruments	81,388	30,127	12,704	715	124,934

	As of December 31, 2019				
	NIS in thousands				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Other	Total
Assets					
Cash and bank deposits	32,687	-	-	-	32,687
Marketable securities	50,923	38,789	7,980	786	98,478
Trade and income receivable	19,161	-	-	-	19,161
Other receivables	2,404	-	-	-	2,404
Total financial assets	105,175	38,789	7,980	786	152,730
Current maturities of lease liabilities	-	793	-	-	793
Trade payables	3,000	-	-	-	3,000
Other payables	8,249	-	-	-	8,249
Income tax payable	-	2,195	-	-	2,195
Lease liabilities	-	8,815	-	-	8,815
Total financial liabilities	11,249	11,803	-	-	23,052
Net fair value of financial instruments	93,926	26,986	7,980	786	129,678

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2.1.2 Impact of hypothetical changes in interest rate on net fair value of financial instruments:

	As of September 30, 2020						
	NIS in thousands						
	Net fair value of financial instruments considering change in interest rate						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 1%	110,544	22,197	9,932	563	143,236	(3,758)	(2.56)
Immediate increase of 0.1%	112,790	23,333	9,932	563	146,618	(376)	(0.26)
Immediate decrease of 1%	115,535	24,722	9,932	563	150,752	3,758	2.56
Immediate decrease of 0.1%	113,289	23,586	9,932	563	147,370	376	0.26

	As of September 30, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in interest rate						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 1%	79,916	28,550	12,704	715	121,885	(3,049)	(2.44)
Immediate increase of 0.1%	81,243	29,967	12,704	715	124,629	(305)	(0.24)
Immediate decrease of 1%	82,861	31,703	12,704	715	127,983	3,049	2.44
Immediate decrease of 0.1%	81,536	30,284	12,704	715	125,239	305	0.24

	As of December 31, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in interest rate						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 1%	92,548	25,788	7,980	786	127,102	(2,576)	(1.99)
Immediate increase of 0.1%	93,789	26,866	7,980	786	129,421	(257)	(0.20)
Immediate decrease of 1%	95,309	28,179	7,980	786	132,254	2,576	1.99
Immediate decrease of 0.1%	94,064	27,105	7,980	786	129,935	257	0.20

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2.1.3 Impact of hypothetical changes in prices of marketable shares on net fair value of financial instruments:

	As of September 30, 2020						
	NIS in thousands						
	Net fair value of financial instruments considering change in prices of marketable shares						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 10%	113,984	23,459	10,926	563	148,932	1,938	1.32
Immediate increase of 5%	113,512	23,459	10,429	563	147,963	969	0.66
Immediate decrease of 10%	112,094	23,459	8,940	563	145,056	(1,938)	(1.32)
Immediate decrease of 5%	112,567	23,459	9,436	563	146,025	(969)	(0.66)

	As of September 30, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in prices of marketable shares						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 10%	82,440	30,127	13,441	786	126,794	1,860	1.49
Immediate increase of 5%	81,915	30,127	13,072	750	125,864	930	0.74
Immediate decrease of 10%	80,340	30,127	11,966	641	123,074	(1,860)	(1.49)
Immediate decrease of 5%	80,865	30,127	12,335	677	124,004	(930)	(0.74)

	As of December 31, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in prices of marketable shares						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 1%	95,020	26,986	8,777	865	131,648	1,970	1.52
Immediate increase of 0.1%	94,480	26,986	8,376	825	130,667	989	0.76
Immediate decrease of 1%	92,835	26,986	7,282	706	127,708	(1,970)	(1.52)
Immediate decrease of 0.1%	93,375	26,986	7,581	747	128,689	(989)	(0.76)

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2.1.4 Impact of hypothetical changes in the Israel Consumer Price Index on net fair value of financial instruments:

	As of September 30, 2020						
	NIS in thousands						
	Net fair value of financial instruments considering change in the Israel Consumer Price Index						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 2%	113,040	23,928	9,932	563	147,463	469	0.32
Immediate increase of 1%	113,040	23,694	9,932	563	147,229	235	0.16
Immediate decrease of 2%	113,040	22,990	9,932	563	146,525	(469)	(0.32)
Immediate decrease of 1%	113,040	23,224	9,932	563	146,759	(235)	(0.16)

	As of September 30, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in the Israel Consumer Price Index						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 2%	81,388	30,730	12,704	715	125,537	603	0.48
Immediate increase of 1%	81,388	30,428	12,704	715	125,235	301	0.24
Immediate decrease of 2%	81,388	29,524	12,704	715	124,331	(603)	(0.48)
Immediate decrease of 1%	81,388	29,826	12,704	715	124,633	(301)	(0.24)

	As of December 31, 2019						
	NIS in thousands						
	Net fair value of financial instruments considering change in the Israel Consumer Price Index						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	Linked	US dollar	Other	Total	NIS in thousands	%
Immediate increase of 2%	93,926	27,526	7,980	786	130,218	540	0.42
Immediate increase of 1%	93,926	27,256	7,980	786	129,948	270	0.21
Immediate decrease of 2%	93,926	26,446	7,980	786	129,138	(540)	(0.42)
Immediate decrease of 1%	93,926	26,716	7,980	786	129,408	(270)	(0.21)

3. Disclosure regarding financial reporting of the Company

3.1 Limits on dividend distributions

For information limits on the Company regarding dividend distribution, see section 5 in Chapter A (Description of the Corporation's Business) in the Company's 2019 Periodic Report. As the protocol was transferred to the association, as discussed in para. 1.5 above, the limit imposed by virtue of that paragraph was lifted.

Dividend payouts are also subject to approval of the Supervisor pursuant to a clarification on that matter that was received from banking regulators, which to the best of the Company's knowledge, may have taken into consideration the uncertainty in the economy due to COVID-19.

On November 29, 2020, the Company's Board of Directors approved an NIS 11.7 million dividend distribution. The Company intends to apply to the banking regulator for approval as said above. After obtaining a response from the regulators and to the extent that they approve the distribution, the Company will make additional reporting about the dividend and the date of distribution. For more information, see immediate report issued by the Company on November 29, 2020.

3.2 Liabilities by maturity

For information about liabilities of the Company, please refer to an immediate report published on the date of this report regarding the liabilities of the corporation as published in the information distribution website of the Israel Securities Authority at [http:// www.magna.isa.gov.il](http://www.magna.isa.gov.il).

4. Corporate governance

Independent directors

As of the date of publishing this report, the Company has not adopted in its articles the provision in the Companies Law regarding the percentage of independent directors on its board.

Changes in officers during the Reported Period:

- On March 9, 2020, Mr. Yair Avidan stepped down as director of the Company after his expected appointment as Supervisor of Banks.
- On July 9, 2020, Chen Haryati was appointed as internal auditor of the Company, after a letter of no objection to the appointment was received from the Supervisor of Banks on August 6, 2020. See section 7 below.
- In July 2020, Mr. Shmuel Gottlieb, VP Operations, and Mr. Tamir Refaeli, Head of Partner Relations and Governance, notified they will be stepping down in 2021.
- In July 2020, an organizational restructuring of the Company was approved to support its business development and continued activity and growth. Some appointments are subject to approval by the Bank of Israel.
- On August 23, 2020, Mr. Elik Etzion notified the Company he was resigning from the board, effective on the date on which the service of a new director begins, after being approved by the Bank of Israel (see below).
- On October 27, 2020, Ms. Irit Philip Adv., VP Legal Consulting and Regulation, notified that she intended to leave her position in early 2021.
- On November 1, 2020, Ms. Shani Federman-Terem began its tenure as director of the Company, after being selected by the general meeting of shareholders on August 16, 2020 and after the Vice Governor of the Bank of Israel confirmed on October 29, 2020 that he had no objection to her appointment as director of the Company. For information about Ms. Shani Federman-Terem, see immediate report announcing the beginning of her

tenure as director, issued on November 1, 2020 (Ref. no. 2020-01-108832), which is presented in this report by way of reference.

- On November 2, 2020, the Company's general meeting of shareholders approved the appointment of Mr. Shai On and Mr. Ehud Wiesner as external directors under Directive 301, and of Ms. Esther (Eti) Levi as a non-external director of the Company (at the recommendations of the Committee for Appointment of Directors) and of Shalom (Shlomo) Bisteri and Yossi Levi as directors of the Company (at the recommendation of shareholders), for a three-year term, subject to obtaining approval of the Supervisor of Banks or non-objection to the appointment. For more information, see a report on calling the general meeting published by the Company on September 21, 2020 (Ref. no. 2020-01-103491), and report on the outcomes of the meeting dated November 2, 2020 (Ref. no. 2020-01-109318), which are presented in this report by way of reference.

5. Charitable contributions

No charitable contributions have been made year-to-date.

6. Legal proceedings

For information about this matter, see section 9 of this report and note 3 to the financial information of the Company as of September 30, 2020.

7. Internal auditor

Through August 31, 2020, Ilan Hammel CPAs served as temporary internal auditor of the Company (hereinafter: the "**Previous Internal Auditor**"). For information about the Previous Internal Auditor, including the procedure for his appointment, work plan and scale of internal audit, see section 5 of the 2019 directors' report, which was attached to the 2019 Periodic Report of the Company, the information of which is presented here by way of reference.

On July 9, 2020, Chen Haryati CPA was appointed as Internal Auditor of the Company (hereinafter: the "Internal Auditor"), subject to approval or objection of the Supervisor of Banks, which, as of August 6, 2020 notified the Company that he did not object the appointment. The Internal Auditor will take up office on September 1, 2020. For more information about the internal auditor, the process for his appointment and who he is reporting to, see section 7 in the Company's report for the second quarter of 2020.

8. Critical accounting estimates

In the Reported Period, no changes have taken place in critical accounting estimates relative to the discussion in note 2 to the financial statements of the Company as of December 31, 2019.

9. Subsequent events

On November 29, 2020, the Company's Board of Directors approved an NIS 11.7 million dividend distribution. For more information, see paragraph 3.1 above and an immediate report published by the Company on November 29, 2020.

For information about subsequent events, see note 5 to the Company's interim financial information as of September 30, 2020.

The Board of Directors of the Company wish to thank employees and management of the Company for their contribution to its activity, and more so during this difficult time of confronting COVID-19 and its implications.

Shalom Bisteri
Chairman of the Board

Moshe Wolf
Chief Executive Officer

Date of approving the financial statements: November 29, 2020.

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.

INTERIM FINANCIAL INFORMATION

(UNAUDITED)

AS OF SEPTEMBER 30, 2020

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.

INTERIM FINANCIAL INFORMATION

(UNAUDITED)

AS OF SEPTEMBER 30, 2020

CONDENSED INTERIM FINANCIAL INFORMATION AS OF SEPTEMBER 30, 2020

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Auditors' review report to the shareholders of Automated Bank Services Ltd.

Introduction

We have reviewed the attached financial information of Automated Bank Services Ltd. (hereinafter - "the Company"), which is comprised of the condensed consolidated statement of financial position as of September 30, 2020 and the condensed consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the nine and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with the provisions of International Accounting Standard No. 34, "Interim Financial Reporting" (hereafter "IAS 34"). Our responsibility is to express a conclusion with respect to the financial information for these interim periods, based on our review.

The annual financial statements of the Company as of December 31, 2019 and for the year then ended, and the condensed interim financial information as of September 30, 2019 and for the nine- and three-month periods then ended were audited and reviewed, respectively, by other auditors, whose reports dated March 30, 2020 and August 20, 2019, respectively, included unqualified opinion and unqualified conclusion, respectively, and included an emphasis of matter paragraph regarding a decision by the Commissioner of Competition to grant a conditioned exemption from recognition as a restrictive arrangement and the first-time adoption of International Financial Reporting Standards (IFRS) in the condensed interim financial information as of September 30, 2019.

Scope of review

Our review was conducted in accordance with the provisions of Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel concerning 'Review of financial information for interim periods undertaken by the entity's auditor.' A review of financial information for interim periods consists of making enquiries, in particular, of those officials responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is substantially lesser in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS 34.

Further to the preceding paragraph, based on our review, nothing has come to our attention that causes us to believe that the above financial information is not in compliance, in all material respects, with the disclosure provisions in Chapter D of Israel Security Regulations (Periodic and Immediate Reports), 1970.

Emphasis of matter paragraph

Without qualifying our opinion, we draw attention to note 3 to the financial statements which describes a decision by the Commissioner of Competition to grant a conditioned exemption from recognition as a restrictive arrangement.

Tel Aviv
November 29, 2020

Kesselman & Kesselman
Certified Public Accountants
Member firm of PricewaterhouseCoopers International Limited

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF FINANCIAL POSITION
Amounts in thousand NIS

	As of September 30		As of
	2020	2019	December 31,
	(Unaudited)		2019
			(Audited)
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	36,446	29,618	32,687
Marketable securities	106,420	97,767	98,478
Trade and income receivables	22,038	21,238	19,161
Other receivables	4,917	5,126	4,104
Current tax assets	-	-	-
Total current assets	169,821	153,749	154,430
NON-CURRENT ASSETS:			
Excess of plan assets over retirement benefit obligation	-	410	-
Property, plant and equipment, net	19,076	18,536	18,543
Intangible assets – software and licenses, net	3,288	4,354	3,919
Right-of-use assets	9,190	10,595	9,567
Prepaid expenses	3,378	252	2,910
Deferred taxes	1,877	726	1,083
Total non-current assets	36,809	34,873	36,022
Total assets	206,630	188,622	190,452

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF FINANCIAL POSITION
Amounts in thousand NIS

	As of September 30		As of
	2020	2019	December 31,
	(Unaudited)		2019
			(Audited)
Liabilities and equity			
CURRENT LIABILITIES:			
Current maturities of lease liabilities	752	924	793
Trade payables	975	8,450	3,000
Other payables	14,261	10,359	11,866
Current tax liabilities	42	1,246	2,195
Total current liabilities	16,030	20,979	17,854
NON-CURRENT LIABILITIES:			
Lease liabilities	8,581	9,757	8,815
Retirement benefit obligation	2,348	-	1,766
Liability for employee benefits	2,647	2,462	2,569
Total non-current liabilities	13,576	12,219	13,150
Total liabilities	29,606	33,198	31,004
EQUITY			
Share capital	4,587	4,587	4,587
Share premium	150	150	150
Other comprehensive loss	(4,516)	(2,598)	(4,169)
Retained earnings	176,803	153,285	158,880
Total equity attributed to shareholders of the Company	177,024	155,424	159,448
Total liabilities and equity	206,630	188,622	190,452

Shalom Bisteri
Chairman of the
Board

Moshe Wolf
Chief Executive
Officer

Ofer Eden
CFO and Chief
Accountant

Date of approving the financial information: November 29, 2020.

The notes to the condensed financial information are an integral part thereof.

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF INCOME
Amounts in thousand NIS

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30		September 30		December 31
	2020	2019	2020	2019	2019
	(Unaudited)		(Unaudited)		(Audited)
Revenues					
From the provision of services to credit card companies	57,413	55,280	20,321	19,336	73,909
From the provision of services to others	5,649	5,735	1,990	1,918	7,684
Total Revenues	63,062	61,015	22,311	21,254	81,593
Operating, general and administrative expenses	38,332	35,841	13,655	12,429	49,900
Operating profit	24,730	25,174	8,656	8,825	31,693
Finance Income (expenses) from marketable securities, net	(1,100)	5,541	1,071	1,180	6,789
Finance income	19	8	-	5	7
Finance expenses	(266)	(220)	(88)	(75)	(372)
Finance income (expenses), net	(1,347)	5,329	983	1,110	6,424
Profit before taxes on income	23,383	30,503	9,639	9,935	38,117
Income tax	5,460	6,734	2,132	2,168	8,753
Net profit attributable to Company shareholders	17,923	23,769	7,507	7,767	29,364
Net earnings per share attributable to shareholders (in NIS)	0.45	0.59	0.19	0.19	0.73

The notes to the condensed financial information are an integral part thereof.

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AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Amounts in thousand NIS

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30		September 30		December 31
	2020	2019	2020	2019	2019
	(Unaudited)		(Unaudited)		(Audited)
Net income	17,923	23,769	7,507	7,767	29,364
Components of other comprehensive income					
Amounts not recycled to profit or loss					
Adjustments required for employee benefits	(450)	-	(667)	-	(2,041)
Relevant tax impact	103	-	153	-	470
Other comprehensive loss attributed to shareholders, after tax	(347)	-	(514)	-	(1,571)
Other comprehensive income attributed to shareholders	17,576	23,769	6,993	7,767	27,793

The notes to the condensed financial information are an integral part thereof.

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into English of the original financial statements published in Hebrew. The
version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF CHANGES IN EQUITY
Amounts in thousand NIS

For the nine-month period ended September 30, 2020 (unaudited)

	Share capital	Share premium	Accumulated other comprehensive loss	Retained earnings (*) (**)	Total equity (*)
Balance at January 1, 2020	4,587	150	(4,169)	158,880	159,448
Change during period:					
Net income for the period	-	-	-	17,923	17,923
Other comprehensive loss	-	-	(347)	-	(347)
Total comprehensive income	-	-	(347)	17,923	17,576
Balance at September 30, 2020	4,587	150	(4,516)	176,803	177,024

For the nine-month period ended September 30, 2019 (unaudited)

	Share capital	Share premium	Perpetual loan (***)	Accumulated other comprehensive loss	Retained earnings (*) (**)	Total equity (*)
Balance at January 1, 2019	4,587	-	150	(2,598)	129,516	131,655
Change during period:						
Net income for the period	-	-	-	-	23,769	23,769
Conversion of perpetual loan to share premium	-	150	(150)	-	-	-
Balance at September 30, 2019	4,587	150	-	(2,598)	153,285	155,424

For the three-month period ended September 30, 2020 (unaudited)

	Share capital	Share premium	Accumulated other comprehensive loss	Retained earnings (*) (**)	Total equity (*)
Balance at July 1, 2020	4,587	150	(4,002)	169,296	170,031
Change during period:					
Net income for the period	-	-	-	7,505	7,505
Other comprehensive loss	-	-	(514)	-	(514)
Total comprehensive income	-	-	(514)	7,505	6,993
Balance at September 30, 2020	4,587	150	(4,516)	176,803	177,024

(*) For information about limits on dividend distribution, see note 3.

(**) See note 17 for information about the Company's annual financial statements.

The notes to the condensed financial information are an integral part thereof.

The accompanying financial statements are a non-binding translation into English of the original financial statements published in Hebrew. The version in Hebrew is the approved text.

AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF CHANGES IN EQUITY
Amounts in thousands NIS

For the three-month period ended September 30, 2019 (unaudited)

	<u>Share capital</u>	<u>Share premium</u>	<u>Perpetual loan (***)</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained earnings (*) (**)</u>	<u>Total equity (*)</u>
Balance at July 1, 2019	4,587	-	150	(2,598)	145,518	147,657
Change during period:						
Net income for the period	-	-	-	-	7,767	7,767
Conversion of perpetual loan to share premium	-	150	(150)	-	-	-
Balance at September 30, 2019	<u>4,587</u>	<u>150</u>	<u>-</u>	<u>(2,598)</u>	<u>153,285</u>	<u>155,424</u>

For the year ended December 31, 2019 (audited)

	<u>Share capital</u>	<u>Share premium</u>	<u>Perpetual loan (***)</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained earnings (*) (**)</u>	<u>Total equity (*)</u>
Balance at January 1, 2019	4,587	-	150	(2,598)	129,516	131,655
Change during the year:						
Net income	-	-	-	-	29,364	29,364
Other comprehensive loss	-	-	-	(1,571)	-	(1,571)
Total comprehensive loss	-	-	-	(1,571)	29,364	27,793
Conversion of perpetual loan to share premium	-	150	(150)	-	-	-
Balance at December 31, 2019	<u>4,587</u>	<u>150</u>	<u>-</u>	<u>(4,169)</u>	<u>158,880</u>	<u>159,448</u>

(*) For information about limits on dividend distribution, see note 3.

(**) See note 17 for information about the Company's annual financial statements.

The notes to the condensed financial information are an integral part thereof.

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AUTOMATED BANK SERVICES LTD.
CONDENSED STATEMENT OF CASH FLOWS
Amounts in thousand NIS

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30		September 30		December 31
	2020	2019	2020	2019	2019
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activity:					
Net income for the period	17,923	23,769	7,507	7,767	29,364
Adjustments required to present cash flows from operating activity					
Adjustments to profit and loss items:					
Depreciation and amortization	4,628	4,602	1,486	1,537	6,089
Retirement benefit obligation, net	115	44	(5)	10	179
Change in liabilities to employees, net	95	115	9	44	222
Income tax	5,460	6,734	2,132	2,168	8,753
Finance expenses (income), net	1,347	(5,329)	(983)	(1,110)	(6,424)
Change in asset and liability items:					
Increase (decrease) in trade and income receivables	(2,877)	(2,591)	(3,007)	595	(514)
Decrease (increase) in other receivables	(1,533)	528	1,374	1,558	(2,485)
Increase (decrease) in trade payables	(1,187)	(736)	(83)	136	87
Increase in other payables	2,395	(965)	(780)	(313)	542
Cash flows from operating activity before finance and taxes	26,366	26,171	7,650	12,392	35,813
Interest received	1,725	1,366	485	641	1,912
Interest and fees paid	(385)	(252)	(137)	(78)	(442)
Taxes received (paid), net	(8,304)	(983)	(1,856)	(1,408)	(1,932)
Net cash provided by operating activity	19,402	26,302	6,142	11,547	35,351
Cash flows from investment activity:					
Purchase of held-for-trading securities	(62,737)	(43,580)	(22,958)	(4,660)	(65,867)
Proceeds from disposal of held-for- trading securities	52,108	27,653	23,005	4,627	49,959
Acquisition and investment in property, plant and equipment and intangible assets	(4,334)	(1,281)	(483)	(305)	(7,132)
Net cash used in investing activity	(14,963)	(17,208)	(436)	(338)	(23,040)
Cash flows from financing activity:					
Maturity of lease liabilities	(680)	(698)	(230)	(236)	(846)
Net cash used in financing activity	(680)	(698)	(230)	(236)	(846)
Decrease in cash and cash equivalents	3,759	8,396	5,476	10,973	11,465
Balance of cash and cash equivalents at beginning of the period	32,687	21,222	30,970	18,645	21,222
Balance of cash and cash equivalents at end of the period	36,446	29,618	36,446	29,618	32,687

The notes to the condensed financial information are an integral part thereof.

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AUTOMATED BANK SERVICES LTD.

APPENDIX TO CONDENSED STATEMENT OF CASH FLOWS

Amounts in thousand NIS

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30		September 30		December 31
	2020	2019	2020	2019	2019
	(Unaudited)		(Unaudited)		(Audited)
Appendix A – material non-cash transactions					
Recognition of right-of-use assets against lease liability	405	11,379	293	(76)	10,455
Acquisition of property, plant and equipment against liability to suppliers and participation of related company	-	5,640	-	5,640	626
Reclassification of perpetual loan to share premium	-	150	-	150	150

The notes to the condensed financial information are an integral part thereof.

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL

a. The reporting entity

1. Automated Bank Services Ltd. (hereinafter: the “Company”) was incorporated in Israel on September 13, 1978, and its official corporate address is 26 HaRokmim St., Holon.
2. On May 27, 2019, the Company published a supplementary prospectus and a shelf prospectus dated May 28, 2019 (hereinafter: the “Prospectus”), in which Company shares were offered to the public by Company shareholders. The Company’s shares were also listed on the Tel Aviv Stock Exchange and the Company became public (a 'reporting corporation'). Trading began on September 12, 2019.
3. Until the beginning of September 2019, the Company was a banking corporation classified as a “joint services company”, as this term is defined in the Banking Law (Licensing), 5741-1981. On September 1, 2019, the Governor of the Bank of Israel canceled the "joint services company" license that had been given to the Company. In light of the above, the holders of the Company’s control instruments are no longer subject to restrictions on the holding of the control instruments of a “banking corporation” in accordance with the provisions of the Banking Law (Licensing), although the restrictions pursuant to the Law for the Promotion of Competition and Reduction of Concentration in the Israel Banking Market (Legislative Amendments) continue to apply. In accordance with the notice received from the Supervisor of Banks, and for three years after the cancellation of the license, the Company will be subject to certain Proper Conduct of Banking Business provisions pertaining to corporate governance and risk management, as well as to the provisions of Section 11A of the Banking Ordinance, 1941 regarding the assessment of directors’ qualifications and compatibility.
4. The Company is currently active in a single operating segment, the clearing segment, which includes the operation of a bidirectional communication system connecting Clearing Customers and charge card issuers, at the one end, to businesses, on the other end; management and operation of a clearing interface for communication between Clearing Customers and charge card issuers, which allows the settling of accounts and the transfer of information between them in connection with such transactions; management and operation of a switching system that connects ATM networks; and development and distribution of the Ashrait PC and Ashrait EMV software. Most of the Company’s revenues are due to the provision of clearing services to credit card companies. For details regarding the Competition Commissioner’s decision to exempt the Company’s activity in the banking transaction collection and approval services and interface services for Clearing Customers and issuers, see note 19c to the 2019 annual financial statements of the Company.

b. Interim financial information is reviewed and not audited.

c. The condensed interim financial information was approved for publication by the Company's Board of Directors on November 29, 2020.

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued):

d. Disclosure about Coronavirus (COVID-19)

In early 2020, Coronavirus (COVID-19) began spreading worldwide, including in Israel, and was announced as pandemic by the World Health Organization (WHO). Wide-spread contagion and the different measures implemented in Israel and worldwide to curb the virus, such as flight cancellations, restrictions on movement, prolonged lockdowns and self-isolation, shutting down public spaces and more (hereinafter: "the Prevention Measures") have had adverse impact on global economy, including economic activity. The outbreak caused significant volatility in Israel and elsewhere, with sharp drops in the markets.

Operational preparedness and business continuity

Since Coronavirus started spreading in Israel, the Company was proactive to maintain overall operational continuity in compliance with all restrictions and guidance, and while strictly protecting the health and wellbeing of all employees. Company site is divided into two separate working zones.

The Company has the infrastructure in place to have all of its employees work remotely, and it continues to have ongoing assessments by the emergency task force it set up, as well as by management and the board.

As of the date of issuing this report, the business activity of the Company is conducted as usual, with 70% of employees work from our offices and 30% work remotely (from home).

Should COVID-related guidance by the Israel Ministry of Health becomes more drastic and/or the economy goes into recession and/or other macro scenarios materialize, and more radical steps are taken, such as a nationwide or extensive lockdown, the Israeli economy may suffer wide-spread adverse consequences, resulting in significant hit to revenue and other business results later this year.

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the present financial information

- (1) The interim condensed consolidated financial information of the Group as of September 30, 2020 and for the nine- and three-month periods ended on that date (hereinafter – the "Interim Financial Information") was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereinafter – "IAS 34"), including the additional disclosure required by Chapter D of Securities Regulation (Periodic and Immediate Reports), 1970.

The Interim Financial Information should be read in conjunction with the 2019 annual financial statements and with the notes thereto, which were prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") and include the additional disclosure required by Chapter D of Securities Regulation (Periodic and Immediate Reports), 1970.

b. Use of estimates and opinions

The preparation of interim financial information in accordance with IFRS requires management to make judgment in estimates and assumptions that affect application of policy and the carrying amounts of assets and liabilities, income and expenses items. Note that actual results may differ from those estimates.

When formulating the accounting estimates used in the preparation of the Company's financial statements, management is required to make assumptions regarding circumstances and events that involve significant uncertainty. When using its discretion in determining these estimates, the Company's management relies on past experience, various facts, external factors, and reasonable assumptions according to the relevant circumstances for every estimate.

The estimates and assumptions underlying them, including those arising from the Company's economic operating environment, are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates are amended and in all affected periods in the future.

Critical estimates

The following is information about critical estimates made in applying the accounting policy and have a material impact on the financial information:

Revenue recognition

The Company's revenue from credit card companies (hereinafter in this note: the "Clearing Customers") include, since the last quarter of 2018, revenue from connected terminals that do not pass transactions, which significantly affected the Company's business results during those periods. The charges (before VAT) issued to all Clearing Customers in respect of this item in the first nine months of 2020 and in 2019 amounted to NIS 8.6 million and NIS 8.8 million, respectively.

One of the Clearing Customers has a dispute with the Company regarding the charge on this item. That Clearing Customer has paid under protest its full debt, informing the Company that the dispute is still pending.

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

Since the second quarter of 2019, some revenue of the Company has come from charging for use of PIN pad terminals, without material impact on results of the Company in those periods. That Clearing Customer disagrees with the Company including regarding the charge for using PIN pad terminals, and it does not pay the debt to the Company for that item.

Note that any settlement with that Clearing Customer will also apply to all other Clearing Customers from which the Company source revenue by virtue of this item.

The Company believes, among other things based on its legal counsel, that it is fully entitled to receive revenue for those items, and that it is highly probable that no significant write off of the amount of cumulative revenue in the financial statements from those items will take place.

Further, following a March 2020 notice of the Bank of Israel (BoI), and in coordination with the BoI, the Company's management and Board of Directors resolved, in light of Coronavirus and the importance placed by the BoI on faster adoption of EMV in order to reduce the physical use of payment terminals at businesses, to give a discount of 50% on the Company's price list monthly rate for PIN pad terminals for the period from March 2020 until the end of 2020. This discount did not have material impact on the Company's revenue.

Provision for claims

The Company provides for claims in accordance with the accounting policy specified in note 2 to the financial statements, based on estimates by management and its legal counsel.

Employee benefits

The present value of the Company's liability for severance pay in respect of the termination of employer-employee relationships is based on multiple factors, which are determined based on an actuarial valuation, using a large number of assumptions, including regarding discount rate. Changes in actuarial assumptions may affect the carrying value of the Company's retirement benefit obligation. The Company estimates the discount rate once annually, based on the yield on high-quality corporate bonds. Other key assumptions are determined based on market conditions and the Company's accumulated experience.

- c. Significant accounting policies and calculation methods applied in preparing the interim financial information are consistent with those used in preparing the 2019 annual financial statements of the Company.

Income tax

Taxes on income for interim periods are recognized based on the best management estimate of the average tax rate that will apply to the projected annual profits.

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CONTINGENT LIABILITIES AND COMMITMENTS

a. Decisions of the Commissioner of Competition

Since 2002, the Company has operated in compliance with restrictive-arrangement exemptions issued by the Commissioner of Competition.

- On September 24, 2017, a new exemption was received from the Commissioner for a period of five years, until September 24, 2022 (hereinafter: the “Exemption”). The Exemption comes in place of a previous one and pertains to the joint ownership arrangement between the banks.

The exemption refers to several main points:

- (a) Restricting the areas of activity of the Company to the services listed in the Exemption and setting in place a framework for engagements with third parties.

In accordance with the Exemption, the Company may be engaged only in the following areas of activity:

- (1) Operation of an ATM switch;
 - (2) Operation of a charge cards switch;
 - (3) Engagement in activity related to the protocol for a limited period, as specified in (c) below;
 - (4) Engagement in activities involving the Ashrait 96 protocol;
 - (5) Development, operation and distribution of the Ashrait PC software;
 - (6) End-to-end certification services for the EMV standard;
 - (7) Activities associated with the aforementioned fields of activity;
 - (8) Any additional field of activity that may be approved by the Commissioner.
- (b) Restrictions on distribution of earnings, as specified in note 15B to the annual financial statements.
- (c) Discontinue operating the Ashrait EMV protocol in the terminal, and transferring all rights to the protocol, free of charge, to a BoI-regulated association, according to the milestones and timing specified in the Exemption and as amended by the Commissioner.
- (d) Various provisions regarding the connection of users to the Company’s systems, engagement with vendors, and end-to-end certification for the EMV standard.

In accordance with the Exemption decision, the Company is subject to restrictions on the distribution of profits, as specified in Note 16B to the annual financial statements, including the condition requiring the Company to discontinue its involvement in the operation of the Ashrait EMV protocol in terminal, to submit to the Registrar of Associations an application to register an association, and to transfer all of rights to the protocol free of charge to the association, which will be regulated and overseen by the Bank of Israel, in accordance with the milestones and timing specified in the Exemption. As part of the foregoing, milestones were determined in respect of the association’s articles. To the extent the association so wishes, the Company would provide services to the association, including protocol specification, development and operation services until no later than October 31, 2020, as

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CONTINGENT LIABILITIES AND COMMITMENTS (continued):

well as the provision of operational services to the association until no later than April 30, 2021, or a later date as may be approved by the Supervisor of Payment Systems at the Bank of Israel, and subject to the Commissioner's approval. The Company will be entitled to charge payment for those services. It is noted that the costs incurred by the Company while preparing the protocol were in amounts that are immaterial to it and were recognized in the statement of income as incurred. It is further noted that even before the Commissioner's decision, the protocol was shared by the Company with other participants that requested it free of charge (subject to signing a non-disclosure agreement). However, the transfer thereof to the association could assist potential competitors to enter the market in which the Company is operating.

The Company applied to the Income Tax Authority in request of a tax pre-ruling that will exempt it from income tax and capital gains tax liabilities in respect of the transfer to the association of all rights to the protocol, as said above. The tax ruling was received on February 15, 2018, subject to the Company accepting the terms of the ruling within 30 days after was issued, and subject to the association's acceptance of several undertakings, as specified in the tax ruling, within 30 days after setting up the association. Due to delays in forming the association, for reasons independent of the Company, and in order to ensure the association's acceptance of the undertakings, as stated above, the Company requested several deferrals, and according to the latest granted, the exemption period was extended until October 1, 2020.

On March 24, 2020, the association was registered with the Registrar of Associations.

On April 14, 2020, the Competition Authority notified the Company that, as requested by the Company and in view of the COVID-19 crisis and the restrictions in place on economic activity that make it difficult to meet the deadline in the Exemption decision issued to the Company, the Commissioner of Competition would not enforce the provisions of the item in the Exemption decision concerning to the transfer to the association of rights of the Company to the Ashrait EMV protocol, until May 24, 2020.

On May 24, 2020, the Competition Authority informed the Company that following the request by the association to postpone the date of protocol hand-over in order to allow it to make necessary preparations, and in response to the issues raised in a letter by the association, the Commissioner of Competition and the Competition Authority would not carry out enforcement measured against the Company for non-compliance with the provisions in section 7 of the Exemption regarding the transfer to the association of rights of the Company to the Ashrait EMV protocol until July 23, 2020.

On July 23, 2020, the Company handed over all of its rights to the protocol to the association for no consideration. The association confirmed that it accepted all terms of the tax pre-ruling received by the Company for the purpose of exemption from income tax and capital gains tax in respect to the transfer to the association of rights to the protocol. Upon the transfer of rights to the protocol, an agreement was signed between the Company and the association for provision of services relating to the operation of the protocol, according to the Exemption decision and the revised

NOTE 3 – CONTINGENT LIABILITIES AND COMMITMENTS (continued):

timeline set by the Commissioner. To the extent the association so wishes, the Company would provide services to the association, including protocol specification, development and operation services until no later than October 31, 2021, as well as the provision of operational services to the association until no later than April 30, 2021, or a later date as may be approved by the Supervisor of Payment Systems at the Bank of Israel, and subject to the Commissioner's approval. Additionally, the agreement set in place further terms and conditions, including regarding the consideration payable to the Company for the said services (at an immaterial amount to the Company), confidentiality, data security and warranty.

- On November 9, 2020, in response to an application by the association and the Bank of Israel that suggested that there are a number of pending developments projects to the protocol that the Company had begun but did not complete, the Commissioner of Competition notified that he will not take enforcement actions against the Company so long as it continued to provide services to the association through December 31, 2020 to the extent the association would be interested.
- On November 11, 2020, a letter was received from the regulators of payment systems in which the Company was asked, in accordance with an approval by the Commissioner of Competition, to continue to provide the services indicated in the application filed by the association, as said above, through December 31, 2020.
- On August 29, 2019, the Competition Authority notified the Company that it adopted the Company's interpretation that the exemption only requires the transfer to the protocol in the segment connecting the Company and the points of sale (POS).
- In July 2018, an exemption was received from the Commissioner, for a period of 5 years beginning on July 30, 2018, i.e., until July 30, 2023, with respect to, among other issues, the mutual recognition agreement of the banks regarding determination of the mutual fees payable among them in the ATM segment, an agreement the Company is not party to.
- On September 18, 2020, a ruling was issued regarding a five-year exemption to Masav from recognition as an onerous arrangement. The Commissioner of Competition indicated in the ruling that the matter of mutual interests between the Company and Masav was being considered by her separately and is unrelated to the exemption ruling to Masav. However, the Commissioner indicated that the exemption ruling to Masav may not be construed as permitting such mutual interest or any other cooperation between Masav and the Company.
- On October 28, 2019, a notice was received from the Competition Authority regarding the mutual interests of the Company and Masav. The Competition Authority's notice included the assertion that despite the recent change in the Company's ownership structure, and as part of the implementation of the provisions of the Law for the Promotion of Competition and Reduction of Concentration in the Israel Banking Market (Legislative Amendments), 2017, which resulted in the large banks holding less than 50% of the Company's shares, while the entire share capital of Masav is still held by the five largest Israeli banks, the Company and Masav continue maintaining significant mutual interests (including shared management headquarters and offices; shared technological infrastructure and backup facilities; and other shared services). The Competition Authority believed, prima facie, that a competition relationship may exist between the Company and Masav, whether explicitly or implicitly, particularly in light of the changes in the Company's ownership structure. Cooperation of the types existing between the Company and Masav may raise a wide variety of antitrust concerns, including a tendency to have less competition between collaborating parties, and the collaboration spilling into areas at the core of the competition between the entities,

particularly when the collaboration also pertains to their decision-making mechanisms. In light of the above, the Competition Authority believed, prima facie, that the relationship constitutes a restrictive arrangement without temporary approval or permit from the Antitrust Court, or an exemption from the Competition Commissioner. The Competition Authority also believed, in light of the alleged antitrust concerns, that it is highly unlikely that the arrangement can meet the conditions for a block exemption from among those listed in section 15A of the Economic Competition Law, 1988. To conclude its notice, the Competition Authority requested that the Company

act immediately to rectify the alleged breach, and to correct the situation described above.

On May 10, 2020, the Company filed, together with Masav, a motion for approval of a restrictive arrangement to the Antitrust Court in the Jerusalem District Court.

In the motion, which was filed in light of the position of the Competition Authority on this matter, the Company and Masav asked the court to approve the cooperation between the companies, which has been well-established in practice for about 35 years, and that due to its scope is present across a significant part of the activities and documents of both companies.

The assets that are relevant to the arrangement are mutual and provided by one company to the other, and services shared by them, including shared CEO and headquarters, technology infrastructure and backup facilities, communications, data security, internal audit, human resources, insurance and risk management and work teams, including teams for software development and maintenance teams, infrastructure and server maintenance, data security, communications, telephony and more.

The nature of restrictive arrangement described in the motion is that given future technological developments and regulatory changes, the 35-year cooperation between the Company and Masav may be deemed in the future as a restrictive arrangement, considering the position of the Competition Authority that it may potentially impact competition between customers of the companies.

The companies asked the court to approve an arrangement for a period of ten years.

Note that the Company and Masav contest the determination that cooperation between them is a restrictive arrangement in the present, and even if the future activity of the companies may have impact on competition, then such impact will be only indirect as potential competition exist at the very least between customers of the companies, and thus, competition is not expected to be undermined in any real way even in the future, and in any case, the synergies have many non-competitive benefits as well as promotion of competition through the companies' technology developments. However, the motion was filed given the position of the Competition Authority that such restrictive arrangement already exists between the companies either potentially or actually.

Among other arguments in the motion, the companies noted the benefits in synergies between them, including the enormous cost saving in terms of human capital and infrastructure, and the mutual accumulation of required professional knowledge for development of both companies, along with operational efficiency that translate into lower rates, allowing entry of new users and promoting competition between customers.

Hence, separation between the companies may have many and diverse consequences, including in terms of finance, competition, security and more, all of which may result in many adverse outcomes to the future of the Company, competition in the payment markets and the public at large.

For example, the Company may be forced to invest considerable resources in hiring and training new employees due to the need to significantly increase the size of work

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teams, especially given present difficulty to hire and the more challenging retention of existing human capital in times of uncertainty, and including potential impact on projects that rely on mutual core systems when developed independently using separate software development knowledge.

Further, separation may affect the ability to develop projects intended to support regulatory reforms of the Bank of Israel.

Furthermore, an uncontrolled mandatory and full separation within a short timeline may create significant risks due to undermined availability and stability of the Company and considerable cyber threats.

The concern is that discontinuing the synergy between the companies and the high costs of separation will lead to higher prices that will eventually be passed on to consumers in one form or another. According to an opinion attached to the motion, the estimated operational cost increases (excluding separation costs) following breaking synergies is NIS 15.3 million per year for the Company, or 30.7% of its operating costs according to 2019 data.

The motion was published on the website for public viewing, subject to a motion to maintain confidentiality filed by the Company and Masav, to allow filing objections within 30 days from publication by any party seeing itself as adversely affected by the arrangement. No objections have been filed against the motion.

On September 29, 2020, the position of the Commissioner of Competition was received, stating that the arrangement as requested does not benefit the public, and thus, should not be approved. The position of Commissioner was accompanied by that of the Bank of Israel, which was not adopted by the Commissioner, and which supported the approval of the motion.

The Company is studying the position of the supervisor. The court granted the companies permission to respond to the Commissioner's position and to complete an economic opinion on their behalf within 60 days after reviewing the documents underlying the position of the Commissioner.

At this stage, the Company is unable to estimate whether and when the motion for approval of a restrictive arrangement is accepted by the court, and therefore, this is forward-looking information, as this term is defined by the Securities Law, 1968.

- On November 10, 2019, a notice was received from the Competition Authority regarding a decision of the Commissioner of Competition to exercise its power under Section 15A(1) of the Law, and to rule that the restrictive arrangement existing between the Company and the banks, as covered by the exemption decision, as well as any restrictive arrangement pertaining to the joint holding of the Company, would not be subject to exemptions given according to the rules of block exemptions. The Exemption decision, including all of its conditions, remains in effect in respect of the restrictive arrangement, until it expires on September 24, 2022. This means that the Company is entitled to continue operating in accordance with the arrangement provided by the Exemption decision, without obtaining approval from the Antitrust Court until that date, subject to compliance with the conditions specified in the Exemption decision, and provided that no material detail of the arrangement is changed.

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b. Lawsuits and class actions

Various legal proceedings are pending against the Company in the ordinary course of business. Presented below are details regarding the main legal proceedings:

1. On July 15, 2013, a motion to certify a class action was filed against the Company and four banks that hold its shares (hereinafter: the “Motion to Certify”). The motion to certify primarily involves the claim that the Company was allegedly prohibited from charging fees on cash withdrawal transactions executed at ATMs it operates that are located less than 500 meters away from a branch of one of its shareholder banks, in an amount exceeding the tariff determined by the relevant bank for cash withdrawal transactions at ATMs located less than 500 meters from the bank branches. In the motion to certify, the amount of damages was estimated at NIS 47.3 million.

The Company filed its response to the motion to certify, in which it asserted, among other arguments, that it would be justified to outright dismiss of the Motion to Certify.

In accordance with Court instruction, on September 20, 2015, a notice was submitted on behalf of the Supervisor of Banks, stating that the Company is not a “bank”, and has no bank branches, and therefore, it is not justified to factor in the location of its ATMs.

The Supervisor clarified that the Company is a banking corporation holding an independent license and was therefore entitled to determine its own tariffs for cash withdrawals at ATMs it owned prior to the sale, at its discretion. Closing arguments were filed by the parties, including response summaries.

On July 5, 2020, a ruling was handed down by the Tel Aviv District Court, rejecting the motion to certify a class action.

2. On September 14, 2017, Mitug Distributed Systems Ltd. (“Mitug”) filed a claim against the Company and against Smart Advanced ATM Services, Hatamar Fund Ltd. (“Hatamar Fund”). In the claim, Mitug brought various claims against the Company in connection with rights and the use of a software application called MultiXFS, which was developed by Mitug for the Company in 2006, and which is installed in ATMs.

In the claim, Mitug petitioned to order the Company and Hatamar Fund, which acquired the Company's ATMs in 2013, to pay to Mitug a total of NIS 2,560 thousand plus VAT, linkage differentials and interest, from the date when the cause was created until the date of actual payment, and noted that the amount of damages sought was indicated for court fee purposes, while asserting, among other arguments, that the sale of the ATMs by the Company to Hatamar Fund, in which the aforementioned software program is installed, without obtaining approval of, and paying consideration to Mitug, was in violation of the law, caused it severe damages, and constituted unjust enrichment at its expense, in the amount of tens of millions of NIS, and that Mitug is therefore entitled to damages. It was also requested in the claim to issue several orders against the Company and against Hatamar Fund in relation to the aforementioned software, including orders prohibiting the continued use thereof.

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NOTES TO FINANCIAL STATEMENTS

The Company filed a statement of defense, in which it rejected Mitug's assertions, and Hatamar Fund did the same.

All of the parties have filed their evidence.

Evidence hearings have been scheduled for March 2021.

According to the assessment of management, and based on its legal counsel, at the current stage of the proceedings, it is more likely than not that the claim will be dismissed. No provision whatsoever in respect of the foregoing was included in the financial statements.

3. On July 4, 2019, a motion to certify a class action was filed against the Company. A copy of the motion to certify was served to the Company on July 23, 2019. The motion to certify involves the claim that the Company collected, allegedly unlawfully, cash withdrawal fees for use of ATMs it operates. This fee was allegedly not presented on the Company's price list. In the motion to certify, the claimed amount of damages was estimated at a total of approximately NIS 484 million.

On February 13, 2020, the Company filed its response to the motion.

On July 29, 2020, the Tel Aviv District Court handed down a ruling approving the mutually-agreed motion of the plaintiff to withdraw the motion to certify a class action against the Company, without awarding costs. The motion to certify was vacated and the personal claim by the plaintiff against the Company was also rejected.

AUTOMATED BANK SERVICES LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Financial instruments

The Company's financial instruments include the following assets and liabilities: cash and cash equivalents, bank deposits, held-for-trading securities, other accounts receivable and other accounts payable. Due to their nature, the fair value of the Company's financial instruments is identical to, or approximates their carrying amounts in the financial statements.

b. Financial risk management

The activity of the Company exposes it to a range of financial risks: market risk (including inflation risk, exchange rate risk, price risk and interest rate risk), credit risk and liquidity risk.

As discussed above, the interim financial information does not include all information and disclosures required in annual financial statements, including regarding financial risk management of the Company, and therefore, the interim financial information should be read together with the 2019 financial statements and accompanying notes.

No material changes in the financial risk management policy of the Company took place relative to that reported in the 2019 annual financial statements.

NOTE 5 – SUBSEQUENT EVENTS

- For information about subsequent events, see note 3a above.
- On November 29, 2020, the Company's Board of Directors approved an NIS 11.7 million dividend distribution. The Company intends to apply to the banking regulator for approval as said above. After obtaining a response from the regulators and to the extent that they approve the distribution, the Company will make additional reporting about the dividend and the date of distribution.