Automated Banking Services ltd

Periodic Report For the Year Ended December 31, 2020

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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.

Description of the Corporation's Business as of December 31, 2020

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1. **Terms**

In this chapter, the following terms will have the following meanings:

"**Business**" or "**Provider**" - A business engaged with a clearing entity regarding the clearing of charge card transactions;

"**Directors report**" - A report containing management explanations of corporate affairs for the year ended December 31, 2020.

"Company" - Automated Bank Services Ltd.;

"**Law for the Promotion of Competition in the Banking Market**" - The Law for the Promotion of Competition and Reduction of Concentration in the Israel Banking Market (Legislative Amendments), 5777-2017;

"**Commissioner**" - The Competition Commissioner;

"**Supervisor**" - The Supervisor of Banks at the Bank of Israel;

"**Governor**" - The Governor of the Bank of Israel;

"**Management Rights**" - Any of the following: (1) Voting rights in the general meeting of a company or in the corresponding body of another corporation; (2) The right to appoint director of a corporation, and for this purpose: (A) Any entity appointing a director of a corporation is considered as having the right to make such appointment; (B) It is presumed that a corporation whose officer are appointed as director of another corporation, and the controlling shareholder of the same corporation, have the right to appoint him;

"**Banking Law (Licensing)**" - The Banking Law (Licensing), 5741-1981;

"**Companies Law**" - The Companies Law, 5759-1999.

"**Payment Systems Law**" - The Payment Systems Law, 5768-2008;

"The Securities Law" - The Securities Law, 5728-1968;

"**Competition Law**" - The Economic Competition Law, 5748-1988;

"**Hotam**" - The department at the Bank of Israel responsible for accounting, payment and clearing systems;

"**Charge Card**" - As defined by the Banking Law (Licensing);

"**Credit Card**" - As defined by the Banking Law (Licensing);

"**Date Close to the Date of Approving the Report**" – March 17, 2021;

"**ATM**" - Automated teller machines: automatic connected machines that allow authorized charge card users to withdraw cash from their checking accounts and/or to receive other services such as viewing their account balance, and performing monetary transfers and monetary deposits;

"**Clearing Interface**" - The settling of accounts between issuers and Clearing Customers;

"**Issuer**" - An entity issuing charge cards to consumers;

"**Masav**" - Bank Clearing Center Ltd.; A banking corporation which is a joint service company, and whose shareholders include Bank Hapoalim Ltd. (25%), Mizrahi Tefahot Bank Ltd. (12.5%), Israel Discount Bank Ltd. (25%), Bank Leumi Le-Israel Ltd. (25%), and First International Bank of Israel Ltd. (12.5%);

"**Terminal**" - A device that allows reading data from charge cards, and processing transaction execution requests made using charge cards. Terminals are located at businesses, and consist of a software component, which connects the business to the Company's charge card switch, and a hardware component, which allows to input charge card information, either through physical reading (swiping), proximity reading, or keypad. [1]It is noted that a terminal may be connected to several clearing entities, in which case any transaction is routed for clearing according to the settings of the charge card in use;

"**Charge Card Switch**" - A system which is used to provide approval and collection services (as the term is defined below) and to provide clearing interface services (as the term is defined above);

"**Clearing Entity**" - An entity holding a clearing license issued by the Governor of the Bank of Israel, with which the business and the issuer have engaged separately, and to which the business transfers the details of executed transactions, for approval, and for the purpose of executing the clearing of charge card transactions;

"**Clearing of Charge Card Transactions**" - Payment made to a provider for assets acquired by a customer from that provider using a charge card, against the receipt of the consideration for the assets

[1] The above does not apply to virtual card transactions, such as transactions executed over the internet or by telephone, by transmitting the consumer's charge card details. Such transactions require a software component only.

from the charge card issuer, and if the payment to that provider was made by the issuer - against receipt of consideration for the assets, directly from the customer;

"**Clearing**" - The process of transferring, matching, and in certain cases, approving transactions before settlement, which may include offsetting the transactions and determining the final balances for settlement;

"**Cross-Clearing of Charge Card Transactions**" - Clearing performed by entities other than the issuer of the charge card used to execute the transaction;

"**Transaction**" - A charge card purchase transaction performed by a consumer from a business, including online transactions. As part of the transaction, the business transfers to the clearing entity the details of the transaction performed, and the clearing entity, which is bound by an agreement with the issuer, undertakes to transfer to the business the consideration for the transaction, on an agreed-upon date, depending on the type of charge card. Concurrently, the issuer undertakes to transfer to the clearing entity the consideration for the transaction as collected from the consumer on the agreed-upon date;

"**Additional Corporate Information**" – Chapter D to the 2020 periodic report – Additional Corporate Information;

"**Communication Protocol**" - A technological specification (a set of rules in a predefined format for the exchange of information between two parties) used to transfer information regarding charge card transactions between entities in the chain of its execution. and which links the Company, Clearing Customers, issuers, businesses, manufacturers, and in certain cases, payment gateways[2], allowing them all to communicate in the same "language";

"**EMV Standard**" - A set of specifications developed by international charge card industry organizations in order to provide a standard and secure format for credit card payment transactions. The purpose of the standard is to minimize credit fraud. EMV-supporting credit card reading devices read the credit card's electronic chip, instead of reading through a magnetic card reader. Transactions with this device require inserting the credit card into the EMV reader connected to the seller's cash register, and entering a PIN code (similarly to withdrawal of funds at an ATM) or without entering a code (Contactless), in order to verify the cardholder's identity before giving final approval for the transaction.

"**Prospectus**" – A complementary prospectus and shelf prospectus that was published by the Company on May 27, 2019, dated May 28, 2019 (Ref. no. 2019-01-044844).

2 Entities which provide transaction transfer services between the business and clearing entity or the processor on its behalf. The service is mostly given to businesses which execute charge card transactions over the internet.

2. **General - Overview of the Company and the development of its business**

2.1. The Company was incorporated in Israel in 1978 as a private company pursuant to the Companies Law. In early June 2019, after completing a public offering of its shares, the Company became a public company and a 'reporting corporation', as this term is defined in the Securities Law. Accordingly, beginning on that date, the reporting format of the Company is based on International Financial Reporting Standards (IFRS) and the Securities Regulations (Annual Financial Statements), 5770-2010.

3. The Company's areas of activity

3.1. The Company is engaged in the operation of systems which allow, inter alia, the collection of charge card transactions from terminals at businesses, transferring approvals for charge card transactions, providing a clearing interface between Clearing Customers and charge card issuers, and transferring approvals for cash withdrawal transactions, as specified below.

3.2. The Company has a single operating segment (hereinafter: the "**Clearing Segment**"), which includes several services, as follows:

3.2.1. Operation of a bidirectional communication system between Clearing Customers and charge card issuers and businesses, for the approval and collection of transactions performed using charge cards at businesses (hereinafter, respectively: the "**Approval and Collection Interface**" and the "**Approval and Collection Services**"). For more information, see section 8.1.3 below.

3.2.2. Management and operation of a clearing interface.

3.2.3. Management and operation of a switching system connecting different ATM networks, including those operated by various banks, such as Bank Leumi Le-Israel Ltd. (hereinafter: "**Bank Leumi**"), Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**"), Israel Discount Bank Ltd. (hereinafter: "**Discount Bank**"), First International Bank of Israel Ltd. (hereinafter: "**FIBI**"), Mizrahi Tefahot Bank Ltd. (hereinafter: "**Mizrahi Tefahot Bank**"), Bank of Jerusalem Ltd. (hereinafter: "**Bank of Jerusalem**") and Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**") (and through them, connectivity is made to additional banks as well), in a manner that allows transmitting transaction approvals for withdrawal and information requests at various ATMs (operated by those banks, and also for other banks through them), 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**"). For more information, see section 8.1.4 below.

3.2.4. Development and distribution of the Ashrait PC and Ashrait PC EMV software - the Company has developed a software program that serves as an infrastructure program for points of sale, which allows the execution of charge card transactions at businesses. The software allows for two work configurations – running on the computer of the place of business or running on servers of the Company. For more information, see section 8.1.5 below.

3.2.5. Certification of terminals for Ashrait EMV - As a supplementary service to Clearing Customers, with the intention of promoting adoption of EMV-supporting terminals, the Company offers an end-to-end certification service for terminals for the purpose of qualifying the EMV standard. For more information, see section 8.1.6.

3.2.6. For details regarding the services provided by the Company, see section 8.1 below.

3.2.7. For details regarding restrictions on the scope of operating areas by virtue of the exemption that was given by the Commissioner, see section 8.3.1 below.

4. **Investments in the Company's equity and transactions involving its shares**

4.1. Changes in the Company's equity

4.1.1. On April 17, 2019, the Company's authorized share capital was split such that each share of the Company of NIS 1 par value was split into 10,000 shares of NIS 0.0001 par value each, and the Company's authorized share capital in NIS after the split amounted to NIS 100,000,000 (i.e. 1,000,000,000,000 ordinary shares with a par value of NIS 0.0001 each).

4.1.2. On June 6, 2019, the public offering of the Company's shares was completed in accordance with the prospectus, and on June 12, 2019, the Company's shares were listed on Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Stock Exchange**").

4.2. Transactions involving shares of the Company

4.2.1. On April 16, 2019, Bank Hapoalim engaged in an agreement with a member company of global MasterCard group, for sale of 10% of the Company's shares, for total consideration of USD 11 million (approximately NIS 39 million), reflecting a price of USD 2.75 per share of NIS 0.0001 par value, of which USD 9 million was paid on transaction closing date, and additional USD 2 million will be given in the form of various services which MasterCard will provide (under the conditions of an existing collaboration agreement between the parties, and as agreed between them) over the next five years. The transaction was closed on May 7, 2019.

4.2.2. In accordance with information provided to the Company, on August 27, 2019, an agreement was signed between Bank Leumi, Bank Hapoalim, Bank Discount and FIBI (hereinafter in this section: the "**Shareholders**") and Mizrahi Tefahot Bank, for the transfer of 3.2% of the Company's shares to Mizrahi Tefahot Bank, in consideration of a price constituting 33.34% of the stock's closing price on July 14, 2019. On September 4, 2019, the Company received a notice from the shareholders, announcing the closing of the transfer of shares to Mizrachi. In light of the foregoing, a perpetual loan that was included in the Company's equity was reclassified as share premium. For additional details, see the immediate reports dated August 28, 2019 (reference number 2019-01-074679) and September 4, 2019 (reference number 2019-01-077856), whose contents are included herein by way of reference.

4.3. For additional details, see Note 13 to the financial statements in Part C of this report (hereinafter: the "**Financial Statements**").

5. Dividend distribution

5.1. Dividend distributions to Company shareholders are subject to the provisions of the law and the provisions of the Company's articles of association, including the provisions and conditions prescribed in the Companies Law for dividend distributions. Through July 23, 2020, the date of transferring the rights of the Company in the EMV Ashrait protocol, as described in that section, restrictions applied to income distribution pursuant to a decision of the Acting Competition Commissioner pursuant to section 14 of the Economic Competition Law, regarding the provision of a conditional exemption from the obligation to receive court approval for a restrictive arrangement pertaining to joint ownership of the Company, dated September 24, 2017 (hereinafter: the "**Exemption**" or the "**Exemption Decision**"), as described below:

A. The exemption decision determined, inter alia, that the Company may not distribute, directly or indirectly, dividends to its shareholders before one of the following dates / events takes place, whichever is earlier:
   (1) Until December 31, 2019, or
   (2) The date when the Company ceases providing any services to an association to which the rights to the Ashrait EMV protocol had been transferred.

B. Even after the foregoing dates, in order to distribute dividends, the Company must meet the following two conditions:
   (1) The Company submitted to the Registrar of Associations an application to register the association, after transferring its rights to the Ashrait EMV protocol to that association. On July 23, 2020, the Company transferred its rights to the protocol to the Association for Management of the EMV Protocol in Israel (hereinafter - "**the Association**") for no consideration. For more information about the transfer of protocol-related rights of the Company, see section 8.3.1 below.
   (2) As of the date of a dividend distribution, no shareholder of the Company holds more than 10% of its control instruments. Note that as of the date of this report, the conditions above are met.

5.2. In accordance with the instructions of Hotam, the Company is required to assess what liquid assets it requires in order to ensure the continued activity of the payment systems, including a minimum of six months of current operating expenses and liquid assets that are required to finance and cover various risks, in accordance with the system's activity and risk profile. For a discussion on risk factors, see section 20 below.

5.3. On November 29, 2020, the Company's Board of Directors resolved to distribute a dividend of NIS 11,700 (NIS 0.2925 per share). According to clarifications received on this matter from banking regulators, and in light of their position on that matter, the Company approached the regulator to obtain approval for the distribution. On February 2, 2021, a letter was received from the regulators, stating that their position was that a distribution or non-distribution of dividends is the authority of a company's Board of Directors based on the dividend policy set by the Company, and according to the relevant provisions in the law. Additionally, the letter indicated that the Company's Board of Directors was asked to hold an additional discussion regarding the dividend distributions and review more aspects, including potential impact of the Competition Authority requirements regarding the separation between the Company and Masav, as discussed in section 8.3.1 below. On February 28, 2021, the Company's Board of Directors held an additional discussion on that matter approving its November 29, 2020 resolution on the dividend distribution, and on March 17, 2021, the dividend was distributed to shareholders. For more information, see immediate reports issued by the Company on November 29, 2020 (Ref. No. 2020-01-121195) and March 1, 2021 (Ref. No. 2021-01-024621).

5.4. Dividend distribution policy

5.4.1. On November 11, 2018, the Company's Board of Directors adopted an earnings distribution policy, subject to the Company becoming a public company, according to which the Company may distribute to its shareholders annual dividends of up to 50% of the annual net profit during the preceding year, as stated in the Company's audited annual financial statements, after neutralizing non-recurring profits from non-operating activities, provided that the Company has distributable earnings, in accordance with the provisions of the Companies Law and subject to the provisions of any applicable law, including the Commissioner's directives, as specified in this section 5 above, and the provisions of the Company's articles of association.

5.4.2. A dividend distribution subject to the aforementioned restrictions may be made provided that no substantial adverse impact is caused to: (A) the Company's cash flow and/or (B) the Company's business plans and investment plans, as approved and defined by its Board of Directors, from time to time. In accordance with the adopted policy, the Company's Board of Directors is authorized to set the dates and amount of the distribution, while considering the Company's liabilities, liquidity and business plans.

5.4.3. It is hereby clarified that the dividend distribution policy described above may not prejudice the authority of the Company's Board of Directors to change the Company's policy regarding dividend distributions, at its discretion from time to time, and there is no liability towards the Company's shareholders and/or any third party whatsoever, subject to any applicable law, including regarding dividend payment dates, or regarding the rates of future dividend distributions.

5.5. The balance of distributable earnings according to the profit test in the Companies Law, as of December 31, 2019, is approximately NIS 161 million.

Part B - Other Information

6. **Financial information regarding the Company's operating segments**

Presented below is a summary of financial data regarding the Company's operating segment (in thousands of NIS), for the years 2020 and 2019:

	2020	2019
Total revenues of the segment (1)	85,203	81,593
Payroll and associated expenses	31,931	31,939
Other expenses, net, excluding depreciation and amortization	13,823	11,872
Total costs, excluding depreciation and amortization	45,754	43,811
Operating profit before depreciation and amortization	39,449	37,782
Depreciation and amortization	5,897	6,089
Results of the segment (operating profit)	33,552	31,693
Assets of the segment (2)	57,778	59,287
Liabilities of the segment (3)	31,828	31,004

(1) All of the Company's income and expenses are attributed to the activity of the segment.

(2) The assets of the segment include all of the operating assets used in the segment, and mostly include trade receivables and other income receivable, property, plant and equipment and other operating assets. In addition to the foregoing assets, the Company also has liquid assets (cash and deposits in banks and held-for-trading securities) which amounted, as of December 31, 2020 and 2019, to a total of NIS 160,849 thousand and NIS 133,165 thousand, respectively.

(3) The liabilities of the segment include all of the operating liabilities in respect of the segment's operating activities, and mostly include expenses payable in respect of payroll and related expenses, trade payables, and others.

7. **General environment and impact of external factors on the Company's activities**

7.1. Developments in the global economy

- In January 2021, the International Monetary Fund (IMF) published a more optimistic forecast relative to the one published in October 2020, following the progress made with vaccination in various countries. According to the updated projection, the world economy is expected to grow by only 5% in 2020 and by 5.5% in 2021. For information about economic developments in Israel and the credit card industry, see section 1.2 of the directors' report.
- Coronavirus - The global coronavirus pandemic began in January 2020. For information about the impact of COVID on the Company, see section 1.2 of the Directors' Report.

7.2. Charge card clearing industry

The Banking Law (Licensing), as recently amendment, identifies three types of charge cards:
"**Charge card**" – a credit card, bank-issued card or payment card;
"**Credit card**" – A means of payment that is a plate or other reusable object designed for purchasing of assets from a supplier without immediate payment of consideration;
"**Bank-issued card**" – A means of payment that is a plate or other reusable object designed for withdrawing cash through automated banking devices or to purchase assets through debiting the customer's account with the bank and crediting another person by using the card in a device intended for that purpose at the place of business of the supplier;
"**Payment card**" – A means of payment that is a plate or other reusable object designed for purchasing of assets from a supplier, and can be used to accumulate monetary value by way of recharging, except for a plate or other object that can be recharged by cash only, and the account of the customer cannot be debited.

The charge card payment system in Israel is mostly comprised of an issuer, a clearing entity, an international brand owner / organization (which owns the brand of the relevant card), a business and a consumer (cardholder), whereby the actions associated with the issuance of the card may be performed by an issuance operator, which sometimes also serves as the issuer.

Charge cards are divided into two (2) main other classifications - (1) bank-issued charge cards are charge cards which are issued by virtue of an arrangement in which the credit card companies are bound with different banks regarding distribution and operation, and whereby, in general, and in accordance with information which was submitted to the Company, the charges associated with them are the responsibility of the relevant bank; and (2) non-bank-issued charge cards, which are not issued by virtue of an arrangement between the credit card companies and banks, which are mostly issued under agreements between the credit card companies and various entities and organizations.

As of reporting date, the companies active in Israel in credit card issuance and clearing (in addition to banks that are providers of bank-issued charge cards) are: (1) Isracard Ltd., which, to the best of the Company's knowledge, issues and clears credit cards of the Isracard brand in collaboration with Europay (Eurocard) Israel Ltd. [that company has recently merged into Isracard], and issuer and clearer of credit cards of the MasterCard brand, and an issuer and clearer of credit cards of the Visa brand (hereinafter: "**Isracard**"); (2) Poalim Express Ltd., a fellow subsidiary of Isracard, which, to the best of the Company's knowledge, exclusively issues and clears credit cards of the American Express brand; (3) Max IT Finance Ltd. (hereinafter: "**Max**") which, to the best of the Company's knowledge, issues and clears charge cards of the Visa and Mastercard brands, and clears charge cards of the Isracard brand; (4) Israel Credit Cards Ltd. (hereinafter: "**CAL**") which, to the best of the Company's knowledge, issues and clears charge cards of the Visa and MasterCard brands, and clears charge cards of the Isracard brand; (5) Diners Club Israel Ltd. (hereinafter: "**Diners**") which, to the best of the Company's knowledge, is a subsidiary of CAL, which exclusively issues and clears charge cards of the Diners brand.

The aforementioned credit card companies issue and clear charge cards. The activity in this segment has expanded in recent years, inter alia, to the best of the Company's knowledge, due to the effects of two main factors: expansion of the scope of services provided by credit card companies, and ongoing growth in the use of charge cards. Another reason for the expansion of the activity in this segment is the enactment of measures intended to reduce the use of cash, and increase the issuance of charge cards. For additional details, see section 8.1.1 below and later in this section 7.2.

Activity in the charge card market has increased significantly over the last five years, in light of the continued increase in e-commerce purchases in Israel, and the Reduction of Cash Usage Law.

The adoption in the Israeli market of EMV smart charge cards is in advanced stages. Since October 2015, issuers are prohibited from issuing non-smart cards, i.e., cards without a chip that protects charge card information. Based on international experience, the transition to this standard, which requires consumers to identify themselves using a PIN code when executing an EMV transaction at a terminal, may increase the level of security in the sector, and reduce the amount of forgeries and fraud related to charge card transactions in which the card is present. The use of the Contactless charging method (proximity payment, i.e. without insertion of the payment card to the terminal) (hereinafter: "Contactless"), although it does not require entering a PIN code, also raises the security level and reduces the use of fake cards. The transition to the use of smart cards, as described above, is expected to bring various advantages, such as reducing the potential for fraud when physically using charge cards, as well as expanding the possibility and reducing the barriers to executing payments abroad with Israeli charge cards. It is noted that, as part of the development of Ashrait EMV software, the Company developed a program intended to allow participation of new Clearing Customers and/or issuers in the Company's range of services, and not only the currently operating credit card companies, as described above.

The EMV system creates the potential for many new uses, including the possibility of connecting additional entities to the system using the CLC method (as specified in section 8.12.1 below), support for digital wallets. This standard also may increase the use of charge cards due to the use of Contactless terminals, as well as new developments, as specified in section 8.12 below. The technology is also expected to increase the number of PIN pad devices (which are used to stringently identify the smart card, and to enter the secret PIN code) for which the Company charges additional payment, as specified in section 8.12 below. As of the reporting date, the Company is unable to predict the size of the impact that those new technologies will have on the Company's results, since it is not possible to estimate their rate of adoption by the market. For additional details, see section 8.1.2 below.

The Company completed at the end of 2015 its preparations for the implementation of the EMV standard, in accordance with regulatory guidance. Since then, the Company has continued to evaluate end-point equipment and to support the process of distributing end-point equipment to support the standard, as stated above, which also depends on completing the process of adjusting the market to allow all charge cards in Israel, as well as the accompanying infrastructure, to transition to the use of smart cards.

On January 9, 2020, an update was published to Directive 472, titled "Clearing Customers and Clearing of Charge Card Transactions", and to Directive 470, titled "Charge Cards". The update determined that a clearing entity may not allow a business to execute a transaction by means other than EMV technology, whereby gradual implementation was prescribed, depending on the size of the business and its volume from credit card transactions, as well as other characteristics.

In accordance with this outline, beginning on March 31, 2020, only EMV and Contactless charge cards are issued in Israel (excluding prepaid cards and cash withdrawal cards). The directive also prohibits clearing entities from clearing charge card transactions unless they have been executed through EMV technologies, effective incrementally beginning on the following dates:

7.2.1. November 30, 2020, in respect of clearing of transactions;

- by physical businesses whose clearing turnover in 2019 from card present transactions was NIS 100 million or more, excluding: (1) gas stations; (2) businesses whose clearing turnover from card not present transactions exceeds 75% of total turnover;
- by businesses, provided that, on that date, an EMV terminal is installed at the business location which also supports the software, and is authorized for this purpose;
- by businesses using charge cards for the first time.

7.2.2. On July 31, 2021, by businesses not qualifying under section 7.2.1 above;

7.2.3. On July 31, 2022, by businesses whose turnover from card not present transactions in 2019 constituted 90% or more of their charge card turnover, and gas stations.

The significance of the above outline is that, on July 31, 2022, the Company's support for the legacy technology (Ashrait 96 switch) will be discontinued. The Company is preparing to support implementation as outlined above.

Additionally, on January 1, 2020, a provision in Policy 472 entered into full effect, which establishes a liability shift mechanism according to which, in case a smart card has been charged for transactions or actions which were wrongly executed through methods outside of the EMV standard, the clearing entity will be responsible for reimbursing the charged amount to the issuer.

7.3. Entry of new Clearing Customers and issuers to the clearing market in Israel

7.3.1. On April 4, 2017, the Banking Supervision Department announced the provision of a clearing entity license to Tranzilla Ltd. (hereinafter: "**Tranzilla**"). In the announcement, it was also stated that Tranzilla is expected to develop, over time, activity involving the issuance of charge cards and the provision of credit to the public in Israel. In the announcement of the Banking Supervision Department, it was stated that, at this stage, Tranzilla received a limited license, and after it has completed the preparations and met all of the requirements, it will receive a full license. The Company is in contact with Tranzilla for the purpose of connecting it to the Company's systems, in accordance with the progress on Tranzilla's technical developments.

7.3.2. To the best of the Company's knowledge, in September 2017, Bank of Jerusalem announced that it had engaged with global MasterCard in an agreement for the issuance of MasterCard charge cards, and that it had engaged in an agreement for sourcing charge-card services from an operating company in Europe which will provide it with technological and operational solutions.

7.3.3. On March 20, 2018, the Banking Supervision Department announced the provision of a clearing entity license to Cardcom Clearing Ltd. (hereinafter: "**Cardcom**"). In the announcement of the Banking Supervision Department, it was stated that Cardcom was required to perform administrative and operational preparations which are expected to take around 18 months. It was also stated that the license that was given is limited, in light of the fact that the expedients in the license issuance process do not require Cardcom to conclude the entire process of technical preparation for receiving the license. Certain restrictions therefore apply to Cardcom's scope of activity. After Cardcom has completed the preparations and complied with all of the requirements, the limited license will be converted into a full license. The Company is in contact with Cardcom for the purpose of connecting it to the Company's systems in accordance with the progress made on Cardcom's technical development.

7.4. Significant regulatory changes in the charge card market in Israel

In recent years there has been a significant increase in legislation, regulation and reforms in the banking sector in general, and in the charge card industry, payment and financial services for consumers in particular, with the regulator's intent being to promote competition in these sectors. For additional details regarding the regulatory trends and processes in the Company's business operating environment, and regarding the implications (including future implications) of these changes and reforms for the Company and for its competitive environment, see section 8.3 below. As of the reporting date, the Company is working on several channels in order to prepare for the implications of the aforementioned changes on the market, inter alia, as specified in section 19 below regarding "business objectives and strategy". The Company's preparations, as stated above, currently require, and may require in the future, the investment of financial resources and other resources.

7.5. Technological changes

In general, the payment infrastructure in Israel and around the world has been gaining momentum in recent years, and electronic payments (including, inter alia, charge card transactions) are taking the place of transactions using paper-based methods, such as cash and checks. Technological development has resulted in the creation of payment methods allowing consumers to pay remotely using new ways, such as using their phones at purchase location, with or without physical charge cards. For additional details see sections 8.6 and 8.9 below.

Presented below are details regarding the main technological changes in the field of advanced payment methods and charge cards in recent years:

7.5.1. Transition to the EMV standard (as specified in section 7.2 above).

7.5.2. Contactless transactions - Contactless transactions are a technological solution allowing wireless transmission of data, including for making payments, with the most common method being the use of the NFC standard for Contactless transactions, allowing charge card-based payment to be used in non-traditional environments, such as public transportation, micro-payment transactions, and more. Charge card transactions through Contactless technology can be executed using a chip installed on charge cards, a chip installed as a sticker, or using a smartphone. The execution of Contactless payments is possible at businesses only with a designated reader installed in the payment terminals, or connected to it as a peripheral. In May 2016, the Supervisor of Banks published a directive stating that, as part of the transition to EMV, no new terminals can be connected without support for Contactless transactions (as specified in section 7.2 above). In the Charge Card Committee (see section 8.3.8 below), it was agreed that contactless transactions of up to NIS 300 do not require entering a PIN. To the best of the Company's knowledge, in other countries where the possibility of using Contactless technology was introduced, the scope of use of charge cards increased.

7.5.3. Tokenization - a technology allowing the use of smartphones and other devices to make payments without exposing the means of payment ID at the time of payment. The technology requires converting the means of payment ID into another number, which is then presented at the time of payment (a "token"). This process of conversion is called "tokenization". The process of conversion in the opposite direction, i.e., converting the token into the card number, is called "detokenization". The Company has developed infrastructure that can serve for the development of conversion solutions of this kind. Such solutions can assist credit card companies or other entities wishing to develop charge card-based payment applications or other means of payment without exposing the number itself on the mobile device. Note that the Company developed technological infrastructure for a detokenization project in its systems for a third party.

7.5.4. Electronic clearing of checks and digital checks - An innovative development, which allows increasing the efficiency of the check clearing process and making it faster. This innovative process allows consumers, inter alia, to perform deposit services through smart devices at lower costs (the consumer is not required to physically go to a bank branch in order to deposit the check, which also reduces deposit costs by approximately 75%). This service is extensively used by banks. This may serve as an alternative product to some charge card transactions, and could therefore adversely affect the charge card activity and the Company's revenues.

7.5.5. Use of blockchain technology - an innovative technology which allows, inter alia, managing secure online monetary transactions in real time, without a managing central entity, where the managing entity is replaced by encrypted "blocks" of information. The technology has the potential for a wide variety of applications which could lead to dramatic change in the payment world, such as the replacement of existing payment interfaces in the banking and payment system, and the use of virtual currencies. The Company is unable, at this stage, to estimate the effect that this technology will have on its activity.

7.5.6. Public transportation – To the best of the Company's knowledge, the Ministry of Transportation and other entities are promoting solutions which will allow charge card payments on public transportation, or connecting payment methods which are currently available on public transportation to charge cards. These solutions, insofar as they materialize, may result in an increase in the use of charge cards, and as a result, may increase the Company's revenues. Note that in 2020, three companies were selected to provide payment applications for the Ministry of Transportation. As of the Date Close to the Date of

Approving the Report, the Company is unable to assess the impact of those applications on the revenue of the Company.

7.5.7. Execution of payments via mobile devices - Technological progress in the development and use of smartphone apps (e.g., Bit, Pepper Pay and PayBox) allows making transactions, viewing information and performance of additional actions via mobile devices (and other smart mobile devices). In recent years, the use of digital wallets developed by technology companies or retail chains has also begun, which allow executing payments at businesses through smartphones, among other devices. As of the date of issuing this report, these technologies make use of charge cards, and therefore make use of the Company's products. Insofar as technologies are developed which do not make use of charge cards, including products of the Company, this could have an adverse effect on the Company's revenues.

On February 14, 2021, the Bank of Israel published its position regarding developments in the payment industry and digital wallet activity that has become possible, among other factors, through integration of EMV in point-of-sale terminals, allowing for contactless payment (NFC) and making payments through digital wallets.

According to that opinion paper, the policy of the BoI regarding developments in the payment market looks to create an infrastructure to allow players in that market innovate the payment sphere and expand it by adding to the various payment options available to consumers and businesses in a way that will reinforce customer experience, improve the wellbeing of the consumer, and at the same time, contribute to spurring competition to benefit the public. In light of that policy, the BoI formalized a position whereby the new initiatives can promote competition, develop the payment arena and bring value to Israeli consumers, and that they should not be hindered, but provided that the following will be met at this developmental phase of the payment market:

1. No use will made in the information collected in relation to the digital wallet for the provision of financial services or selling of other financial products to charge card customers who were issued by issuers that are not owners of the wallet, until this matter is comprehensively reviewed;

2. In an open wallet, with a short period, there will be an option of having multiple cards by different issuers, such that customers will be able to easily select the use of several cards;

3. The restriction imposed on the two largest banks in the Law for the Promotion of Competition and Reduction of Concentration for the purpose of credit card limits applies to those issued or to be issued in joint initiatives with the involvement of the two largest banks, either in the form of dedicated cards for use in a digital wallet or other cards, unless the BoI, at the end of an assessment, announces that such joint initiative are not within the scope of a restricted joint issue.

   The BoI will continue to follow developments in this area, simultaneously with its activity to promote innovation and efficiency in advanced payments, and when necessary, will act to set necessary regulations.

7.6. <u>Consumer changes</u>

The technological development occurring in recent years, as described above, also affects consumer preferences, and the manner of using payment methods is changing accordingly. Thus, for example, when more advanced methods for executing monetary transfers, purchases and payments by electronic means penetrate the market, they capture market share on account of the traditional means which had existed in the market until then (such as payment via cash or checks). The e-commerce

sector in Israel has grown significantly in recent years. As part of the growth in this sector, the mobile payment sector has also been growing, and capturing a significant share of total online purchases. Furthermore, the use of digital wallets among consumers and businesses (for B2B, B2P, P2B and P2P transactions) has been increasing, which serve both for monetary transfers and to make purchases. These wallets are, in part, based on charge card payments (and may, in this context, contribute to growth in clearing amounts), while some are based on direct crediting and debiting of the bank accounts outside of the charge card arena.
Consumers expect to receive simple, immediate and fast solutions offering a personal-unique, efficient and personally tailored user experience, sometimes also for a premium cost. However, increased consumer awareness is also contributing to sensitivity to price, to service quality in the various service channels, and to the set of associated benefits. Consumers are becoming more aware and selective. Concurrently, loyalty to longstanding brands has been decreasing, mostly among younger consumers, and there is willingness to purchase financial products from new technology-focused companies.

In general, this trend supports the growth of the Company's activity, although e-commerce transactions which are not cleared in Israel and digital wallets that are not card-based, do not make use of the Company's systems. An increase of transactions of this kind on account of purchases on Israeli websites or physical stores in Israel may adversely affect the Company's revenues.

This section 7 above, including all of its subsections, also includes forecasts, estimates, approximations and other information pertaining to future events and matters, whose materialization is uncertain, and which are not under the Company's exclusive control ("Forward Looking Information"). The main facts and figures that served as the basis for this information are facts and figures pertaining to the current situation of the Company and its business affairs, facts and figures pertaining to the current situation in Israel which affects the Company's area of activity, various regulatory guidance applicable to the Company, and macro-economic facts and figures, as these are known to the Company on the reporting date. The Company has no certainty that its forecasts and estimates will materialize, and the Company's operating results may differ significantly from the estimated or implied results described above, inter alia, due to changes to any of the foregoing factors, as well as their intensity, scope, and duration, and the Company's ability to handle them.

Part C - Description of the Corporation's Business by Operating Segments

8. **The Company's areas of activity - clearing**

8.1. General

As stated above, the Company is currently engaged in the clearing segment, which includes several activities, as follows: (1) Connecting terminals to the charge card switch and authorization of terminals for Ashrait EMV; (2) Approval and collection services and clearing interface services; (3) ATM switching services; (4) Development and distribution of Ashrait PC software; (5) Engagement in the communication protocol activity through July 23, 2020; All as specified below.

8.1.1. General background

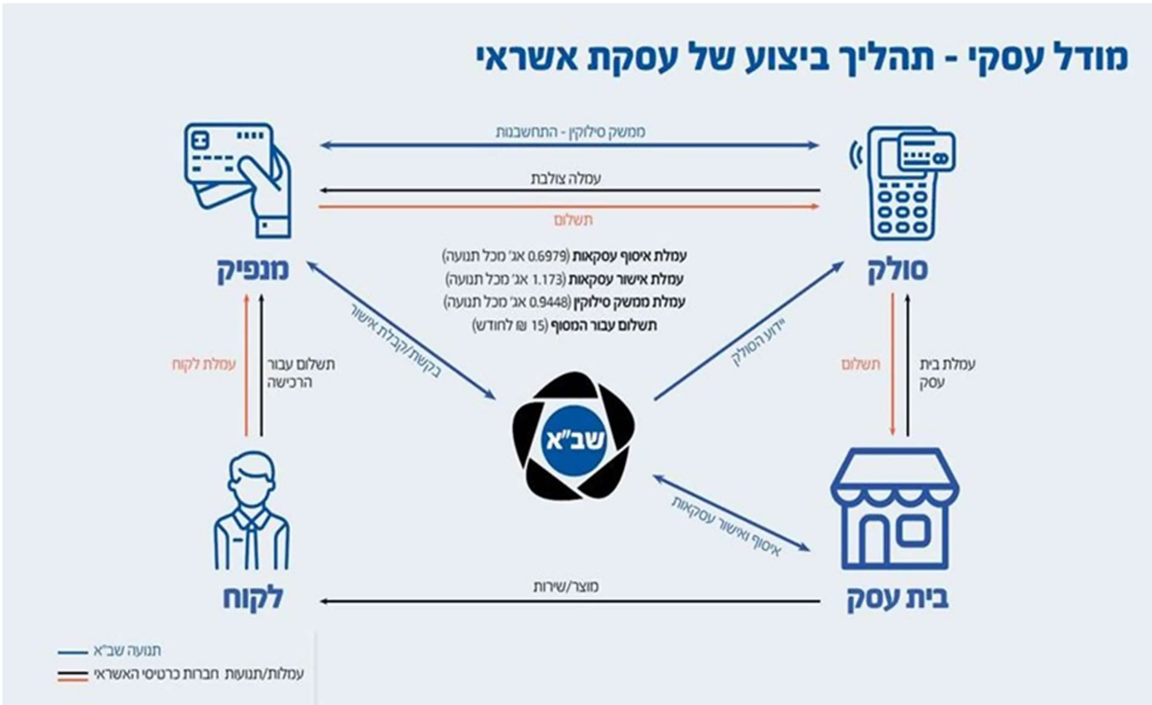
For details regarding the various types of charge cards, see details in section 7.2 above.

Charge card payments may be executed through card-present transactions at points of sale (hereinafter: "**POS Devices**"), whether manned or unmanned, or in card not present transactions through a website, app, call center, etc.

Charge card transactions are executed through an agreement-based system between the following entities: issuer, clearing entity, brand owner / international organization (which owns the brand of the relevant card), business and consumer. Each of the players operates in accordance with defined rules: the issuer issues charge cards to consumers by virtue of the issuer's license / the issuer's status in the international organization; The consumer uses the card as a payment method at the business, and the business provides the consumer with goods or services; The business transfers to the clearing entity the details of the executed transaction (mostly through the Company, and in case of transactions which are executed through a foreign clearing entity - through the relevant international organization), and the clearing entity, which is bound by an agreement with the issuer, undertakes to transfer to the business the consideration for the transaction, on the agreed-upon date, depending on the type of charge card. Concurrently, the issuer undertakes to transfer to the clearing entity the consideration for the transaction, which is collected from the consumer on the agreed-upon date.

For this service, the clearing entity charges a fee from the business, with this fee used by the clearing entity to pay the issuer, if the issuer and clearing entity are two separate entities (hereinafter: the "**Cross-Fee**" or the "**Issuer's Fee**"), and the remainder represents the clearing entity's share. The issuer also sometimes collects card fees from cardholders, in respect of the service given to them.

As stated above, there are several companies in Israel that issue and clear charge cards, of which the primary companies include the credit card companies Isracard, MAX and CAL. Banks also function as charge card issuers. Additionally, on April 4, 2017, the Bank of Israel also granted a clearing entity license to Tranzilla, and on March 20, 2018, the Bank of Israel granted a clearing entity license to Cardcom. To the best of the Company's knowledge, the foregoing credit card companies are engaged between them in agreements for cross-clearing of charge cards, which allow each of them to clear charge cards issued by the other companies. Credit card companies are subject to the Commissioner's exemption as from April 25, 2018. Note that according to a decision by the Commissioner, beginning on July 1, 2021, transfer of money between an issuer and a clearing entity for transactions performed in a single installment need to be performed not later than one day after the time of transmitting the transaction from the place of business.



Business Model – Credit Transaction Execution Process

Issuer

Clearing – settlement interface

Cross-fee

Payment

Clearing entity

Transaction collection fee (0.6979 agorot per transaction)
Transaction authorization fee (1.173 agorot per transaction)
Clearing interface fee (0.9448 agorot per transaction)
Payment in respect of terminal (NIS 15 per month)

Request for / receipt of authorization

Informing the clearing entity

Customer fee

Payment for purchase

Shva

Payment

Business fee

Transaction collection and authorization

Product / service

Customer

Business

Blue: Transaction of Shva
Black / Orange: Fees / transaction of credit card companies

8.1.2. Connection of terminals to the charge card switch

With respect to each terminal which is connected to the Company's systems (including terminals at businesses and aggregators), the Company collects a fixed monthly payment for managing and updating the terminal. As of the reporting date, the Company collects NIS 15 from each terminal, which is paid by all of the Clearing Customers at the terminal, divided according to the number of transactions which were processed from that terminal to each clearing entity during that month, and in respect of connected terminals which do not process transactions - divided according to the number of Clearing Customers during that month (hereinafter: "**Connected Terminals**"). The average number of connected terminals was approximately 217 thousand in 2019 and 230 thousand in 2020.

The execution of EMV card present transactions requires a PIN pad device, in addition to the terminal. Beginning on April 1, 2019, the Company charges fixed monthly payments for managing and updating PIN pad devices, in the amount of NIS 4 for each PIN pad of system-connected terminals. The charged amount is divided among all of Clearing Customers at the terminal equally, and separately for each PIN pad connected to the terminal, including in case of a single terminal that includes the PIN pad. For details regarding the Company's dispute with Isracard, see section 8.11 below.

The Company decided, after being approached by the Bank of Israel in March 2020 and in coordination with it, in light of COVID and the importance placed by the BoI on promoting the integration of EMV to reduce physical use of pay terminals in places of business, to grant a 50% discount from the monthly rates published in the standard price list of the Company for all PIN pad terminals paid for the period from April 2020 to the end of that year given to clearing entities that regularly paid for that service to the Company at that date. The said discount has no material impact on the revenue of the Company.

8.1.3. Transaction approval and collection services and the clearing interface

As part of the approval and collection services activity, the Company operates as a processor of charge card transactions. As part of the above, it is connected to all terminals at businesses, and collects and processes all transactions involving all types of charge cards, for the purpose of transferring them to issuers for the receipt of approval and continued handling of the transaction, and also routes "on us" transactions (as this term is defined below) for Clearing Customers which handle transactions independently. As part of its activity as a processor, the Company also provides Clearing Customers with at-business terminal management services, and performs additional technical actions for Clearing Customers and issuers.

Transactions at businesses are executed through the terminals installed in them. Those terminals contain a software component, which connects the business to the charge card switch, and a hardware component, which reads charge cards. In order to connect to the approval and collection interface, the Company performs tests on the terminal software in order to verify their compliance with the communication protocol and the connection to the approval and collection interface.

The Company collects a fixed fee from the Clearing Customers for each transaction, independent of its amount, in respect of the collection services (as of the reporting date, in the amount of 0.6979 agorot per transaction) and in respect of the authorization services (as of the reporting date, in the amount of 1.173 agorot per transaction authorization request). The Company also collects fees in respect of a third party interface (the clearing interface) (as of the reporting date, in the amount of 0.9448 agorot per transaction), which is divided equally between the clearing entity and the issuer. It is noted that the Company performs collection services for all transactions executed at businesses using charge cards; however, there are some transactions for which approval services are not performed, such as direct debit transactions and low amount transactions, as defined by the clearing entity, in varying amounts from time to time.

Between 2019 and 2020 the number of transactions (credit and debit transaction) was reduced from 1.66 billion in 2019 to 1.58 billion in 2020. For information about the impact of COVID on the reduction in the number of transactions in 2020, see section 1.2 of the directors' report.
As noted above, charge card transactions are executed by the issuer which represents the cardholder on the one hand, and by the clearing entity which provides clearing services to the business on the other. There are two types of transactions: (1) Transactions executed at a business, where the entity providing it with clearing services for the card used to execute the transaction is also the issuer of the card used to execute the transaction (hereinafter: "**On Us Transaction**"), and (2) Transactions executed at a business, where the entity providing it with clearing services for the card used to execute the transaction is not the issuer of the card used to execute the transaction (hereinafter: "**Cross-Clearing Transaction**").
A cross-clearing transaction requires connectivity between the clearing entity and the issuer, in several respects - the clearing entity may request the issuer's approval to execute the transaction, the clearing entity is required to transmit the information regarding the transactions which were executed using the issuer's cards at the business, and the funds must be transferred to the business.
In order for it to be possible to complete a charge card transaction, it is necessary, inter alia, for the issuer and the clearing entity to make a contractual and technological connection: the contractual connection defines payment transfer timing, and the liability borne by each party in different situations. The approval and collection interfaces operated by the Company allow the collection of transaction details from the business, electronically transfer a transaction approval request to the clearing entity and issuer, and transfer the response to that request. The clearing interface allows clearing the transaction at the agreed-upon times (when the actual clearing process is not done by the Company). In Israel, the technological connection is made through the clearing interface for charge card transactions, which is operated by the Company.
The calculation of the total credit and debit amounts for each issuer and clearing entity is performed through the clearing interface, according to predefined rules which have been agreed upon between the parties, in respect of all types of transactions that have been executed with charge cards at the businesses. The services in the clearing interface are only relevant to charge card transactions involving cross-clearing, i.e., when the clearing entity is not the card issuer. The clearing reports issued by the Company, which include details regarding credits and debits for each issuer and clearing entity, in accordance with rules which the parties have agreed upon, are transferred to each issuer, and the results of the account settlement process are transmitted in files to Masav, which executes the actual payment orders between the Clearing Customers and the issuers.
For the purpose of submitting requests to approve charge card transactions from the terminal to the issuer, and submitting the response from the issuer back to terminal, the Company operates the approval interface, and the interface also allows the collection of transactions from terminals.
The average fee for transaction approval and collection services and the clearing interface in 2019 and 2020 (based on the number of transactions) was an average 2.1 and 2.2 agorot per transaction, respectively.
The Company developed for credit card companies a service for converting charges from NIS to local currencies of payors (DCC – Dynamic Currency Conversion), allowing for currency conversion, offering tourists to pay for transactions in Israel in their respective local currencies. The Company's price list includes a minimum monthly cost for participating credit card companies, as well as a fee per transaction.

Additionally, the Company developed a support mechanism that allows for dual credit card activity. The mechanism enables the use of a given credit card with two different brands, based on the location of purchase. The Company's price list includes a minimum monthly cost for participating credit card companies, as well as a fee per transaction.

For details regarding the rules of the charge card services system, see section 8.13 below.

8.1.4. <u>ATM switching services</u>

The Company operates the ATM switch and provides ATM switching services. As part of these services, the switching system connects the Company to the ATM networks of various banks, in a manner that allows transmitting approvals for cash withdrawals requests and information requests at various ATMs, and do so independently of the bank with which a customer has an account. ATM switching services are provided based on an agreement between the banks to recognize transactions across ATMs regardless of the operating bank. In order to allow the customers of the various banks who hold charge cards to make use of all ATMs throughout the country, independently of their bank, connectivity is needed between all networks. An operator of an ATM network that qualifies by law to receive ATM switching services from the Company may connect to the communications switch through the Company's ATM switch, based on the conditions and rules set forth in the Commissioner's exemption. Account settlement activities are performed directly between counterparty banks in accordance with the mutual recognition agreement, as defined in section 16.4 below, and the Company does not provide, as of the date of issuing this report, clearing or settlement services as part of its ATM switching services. The system connects between ATM networks of counterparty banks, and can be used to execute the following actions using charge cards at ATMs: (A) Transmission of monetary withdrawal requests and approval or rejection responses; (B) Checking current account balance of the charge card holder's bank account (provided that the respective bank shares that information, and that the ATM operator allows the balance checking and balance display action at the ATM); and (C) In case bank systems are unavailable, the Company provides a bank-specific predetermined response (STIP) as determined by each bank, and (d) services for changing the PIN in the ATM Switch (SSP-Self Selected PIN).

The Company has formulated a document containing rules for the ATM switching system, in accordance with the instructions of Hotam. As part of the above, the Company formed a committee of participants in the ATM switch, which includes representatives of the Company, banks participating in the system, and Hotam, and is preparing for its publication.

The Company collects a fee from the bank in respect of each switching request, in accordance with the Company's price list.

In December 2017, Hotam contacted the Company with a request to perform characterization of a central solution for the execution of account settlement and clearing processes for ATM transactions. The Company transferred to the Bank of Israel the foregoing characterization. Per guidance by Hotam, the Company is required to develop a clearing interface to provide a solution for the default arrangement as discussed in section 8.3.2.

For details regarding an additional switch, see section 8.9 below.

8.1.5. <u>Development and distribution of Ashrait software</u>

As specified above, the execution of charge card transactions requires communication between different entities in the chain of execution of transaction, including the Company, Clearing Customers, issuers, businesses, producers, and in certain cases, payment gateways. The communication between these entities is done through a terminal communication protocol, which allows all of the entities to communicate between them speaking the same "language".

Various developers, including the Company, have developed a POS software. The Company has developed the Ashrait PC software program, which is an infrastructure POS program sold to businesses through distributors, and included in software products sold by them to businesses, and which allow the execution of charge card transactions at those businesses. The software permits for two work configurations – one running on the computer of the business and the other running on servers of the Company. Regarding this matter, it is noted that the Company sells the software to distributors which integrate it into software they developed, and sell it to businesses, and which provide support and repair services to the businesses.

8.1.6. Communication protocol

In the past, the Company developed a protocol called the Ashrait 96, which connects terminals to the Company. This protocol was updated over the years in order to align it to the developing needs in the market, such as allowing cross-clearing for Visa and MasterCard brands, in accordance with the cross-clearing arrangement approved by the Competition Court, and further to the cross-clearing of the Isracard brand. Since the protocol was developed as a patchwork over the years, it became a complex protocol to implement, and highly unique, which was tailored according to the needs and requirements of the existing credit card companies, and which was given to the users free of charge.

In 2013, the Competition Authority determined, as part of the previous exemption which was given to it by the Competition Commissioner, that the Company was required to develop a new protocol to connect the terminals and the Company, which will compatible with international standards, make charge card transactions more secure, and allow the introduction of additional players into the market, mostly new Clearing Customers and issuers. In light of the foregoing, the Company has developed and implemented the new protocol in its systems, called Ashrait EMV protocol (hereinafter: "**Ashrait EMV Protocol**"), which is a technological interface for the provision of approval and collection services, which is compatible with the EMV security standard, and allows the use of advanced payment methods (such as smart cards through the EMV standard, and Contactless payment methods).

According to guidance of the Supervisor in the Exemption Decision, the Company transferred on July 23, 2020 its entire rights to the protocol to a non-profit for no consideration. For more information, see section 8.3.1 below.

8.2. Structure of the operating segment and changes occurring therein

For details regarding the Law for the Promotion of Competition in the Banking Market, and its effects on the Company's ownership structure, see section 3.4 below.

For details regarding technological changes in the operating segment, see section 7.5 above.

8.3. Restrictions, legislation, standardization and special constraints which apply to the operating segment

On June 2, 2019, the Governor of the Bank of Israel canceled the joint service company license that was given to the Company in 1981, and in accordance with the notice which the Company received from the Supervisor of Banks, for three years after the cancellation of the joint service company license, the Company will be subject to certain Proper Conduct of Banking Business Directives as issued by the Supervisor of Banks, 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 qualifications and suitability for directors and officers of the Company. The Company is also supervised by Hotam by virtue of its status as 'operator of controlled payment systems', pursuant to the Payment Systems Law. The Company also operates in accordance with, and subject to the Commissioner's decisions, as specified below.

The regulation applicable to the Company has direct impact on the Company's operating segments, and an indirect impact on the Company's scope of activities, and also on possible competition vs. the Company due to regulation applicable to the entities using the various systems operated by the Company, restrictions on the use of charge cards, and more.

The following are details about regulation affecting the Company's operating segments and its activity vis-à-vis third parties:

8.3.1. <u>Decision of the Competition Commissioner</u>

8.3.1.1 Exemption from approval of a restrictive arrangement

Since 2002, the Company's activity has been regulated through decisions of the Competition Authority regarding exemption from approval of a restrictive arrangement between Bank Hapoalim Ltd, Bank Leumi Ltd, Discount Bank Ltd, First International Bank of Israel Ltd, Mizrahi Tefahot Bank Ltd and the Company. The latest decision regarding the exemption from approval of a restrictive agreement was given on September 24, 2017 for a five-year period and through September 24, 2022 (hereinafter: the "**Exemption Decision**").

The exemption refers to several main points:

(a) The Company is permitted to 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 (b) 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) Transfer of rights to the Ashrait EMV protocol – Transfer all rights of the Company to the Ashrait EMV protocol to a nonprofit that was set up for that purpose for no consideration, with the Company discontinuing to be active in relation to that protocol. This is to be done according to the milestones and timeline specified in the Exemption and subsequent updates, as may be issued by the Commissioner from time to time.

(c) The terms under which the Company will be permitted to distribute dividends, as indicated in section 5 above.

(d) Various provisions regarding the terms for connection to systems of the Company as well provisions regarding activity with vendors and providing end-to-end certifications for the EMV standard.

(e) Additionally, the Exemption Decision provides that the Company is required to post on its website rates for each of the services it provides.

8.3.1.2 Transfer of rights to the Ashrait EMV protocol to the nonprofit association

- On March 24, 2020, the nonprofit was registered with the Registrar of Associations.
- 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. Note that the costs that the Company incurred while preparing the protocol were at immaterial amounts and were expensed as incurred to profit or loss. Further note that even before the decision by the Commissioner, the protocol was transferred by the Company to participants who asked for that (subject to signing a non-disclosure agreement) for no consideration, but the transfer to the Association may help potential competition to enter the market where the Company operates. Upon transferring the rights to the protocol to the Association, an agreement was signed between the Company and the

Association for services concerning the activity around the protocol and to set certain additional terms and conditions, including the consideration payable to the Company for those services (at an immaterial amount to the Company), confidentiality, data security and warranty.

- According to the Exemption Decision and the revised dates set by the Commissioner, the Company provided the Association with specification, development and operational services through December 31, 2020, and to the extent that the Association is interested, the Company will continue to provide the Association operational services through April 30, 2021 or a later date mandated by the Supervisor of Payment Systems in the Bank of Israel, and subject to consent by the Commissioner of Competition.
- On August 29, 2019, the Competition Authority notified the Company that it found it appropriate to accept the position of the Company, and adopt an interpretation that the terms of the exemption require the transfer of rights in relation to the protocol regarding the segment connecting the Company and the points of sale (POS) only.

8.3.1.3 Application of the Company and Masav to a court for approval of a restrictive arrangement

- On October 28, 2019, a notice was received from the Competition Authority regarding the joint interest 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 in the Banking Market, 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 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 believes, 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. Collaborations of the aforementioned type between competitors 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 parties, particularly when the collaboration also pertains to the parties' decision-making mechanisms. In light of the above, the Competition Authority believes, prima facie, that the relationship constitutes a restrictive arrangement which was not given approval or a temporary permit from the Antitrust Court, or an exemption from the Competition Commissioner. The Competition Authority also believes, in light of the alleged antitrust concerns, that it is highly unlikely that the arrangement will meet the conditions for a block exemption among those listed in section 15A of the Economic Competition Law, 5748-1988. In summary of its request, the Competition Authority requested that the Company act immediately to cure 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 services, provided by one company to the other, and services shared by both, including shared CEO and headquarters, technology infrastructure and backup facilities, communications, data security, internal audit, human resources, insurance and risk management, and joint 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 (10) 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 may 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 in practice. 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 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 reduced 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 of the Competition Authority for public viewing, subject to a request to maintain confidentiality filed by the

Company and Masav, to allow filing objections within 30 days from publication by any parties seeing themselves as negatively affected by the arrangement. No objections have been filed against the motion.

- On September 29, 2020, the Company received the position of the Competition Commissioner, 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 Commissioner. The Company received a right to respond to the Commissioner's position within 60 days after the end of the procedure for disclosure and revelation of third-party documents that the Authority relied on in determining its position. This procedure has ended as of the date of publishing this report.
- On December 27, 2020, the Commissioner filed a motion to the court (hereinafter: "the Motion") to exercise the powers vested in her by Section 50A to the Competition Law and order the Company and Masav to discontinue the restrictive arrangement between them within 30 days, or any other timeframe that the court may see fit in the circumstances of the case, provided they do not hold a permit under Section 13 to the Competition Law; a court approval under Section 9 to the Competition Law; or exemption from the duty to receive such approval under Section 14 to the Competition Law; alternatively, any other order that the court may see fit in the circumstances of the matter.

  In the Motion, the Commissioner reiterated her position that the synergies between the Company and Masav already constitute a restrictive arrangement, and one that has not received approval from competition regulators, and thus, is in prolonged violation of the Law. Therefore, the Commissioner said it was her duty to file the Motion to the court, asking to exercise its powers and order to end this violation.

  The Commissioner noted that she was aware of the difficulty posed by immediate and complete break of all cooperation between the Company and Masav, and that she believed that uncontrolled separation may damage the public, and therefore, she recommended granting a temporary permit to allow for continuation of some cooperation until the court rules on the motion filed by the Company and Masav for incremental discontinuation of another part of those synergies even before a decision on the motion for approval is handed down. The Commissioner notified the Court it was ready to discuss the matter with the Company and Masav before issuing its position, as started before filing the motion to approve.

  The Company and Masav filed their response to the Motion on January 14, 2021. The Commissioner filed its reply to the response on February 2, 2021.

  On February 10, 2021, the court rejected the Motion. The court noted in its ruling, among other things, that a sweeping change that spells immediate termination of cooperation between the Company and Masav may inflict a significant negative impact on the public, and that the Company and Masav have an valid and serious argument that should be considered, namely, that the requested order may destabilize the payment system and even compromise in a tangible way the purpose of the principle proceeding. Without prejudice to the above, note that the court indicated in its decision that it did not provide a seal of approval to the existing situation or prevent the Commissioner to exercise her authority under the law. For more information, see immediate report as published by the Company on December 28, 2020 (Ref. no. 2020-01-133573) and on February 10, 2021 (Ref. no. 2021-01-017131).

8.3.1.4 The following is a description of additional exemption decisions that were granted by the Commissioner, which do not apply directly, but are relevant to the activity of the Company:

- 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, inter alia, the mutual recognition agreement of the banks regarding the determination of the mutual fees between them in the ATM segment, an agreement to which the Company is not party to.
- On June 18, 2020, a decision was given to Masav regarding a five-year exemption from a restrictive arrangement. The Competition Commissioner noted in her decision that the issue of affiliation between the Company and Masav is being examined by her separately, and that she did not consider that in the exemption decision to Masav. However, the Commissioner indicated that the exemption decision to Masav does not approve of those affiliations or any other cooperation between Masav and the Company.

The foregoing section includes, inter alia, forward looking information. The main facts and figures that served as the basis for this information are facts and figures to the best of the Company's knowledge as of the reporting date, and the Company has no certainty regarding the terms of the future exemption which Masav may receive from the Commissioner, nor regarding its implications for the Company, if any such implications arise.

8.3.2. <u>Designation of payment systems of the Company as "controlled systems" in accordance with the Payment Systems Law</u>

8.3.2.1. On July 18, 2013, the Bank of Israel designated the payment systems operated by the Company, as specified below, as "controlled systems", pursuant to the Payment Systems Law, including the charge card services system (the system that provides the approval and collection services and the clearing interface services) and the ATM system (which provides the ATM switching services). The meaning of this designation is increasing the regulatory and oversight burden on the Company, and required revisions to the Company's corporate governance and oversight mechanisms.

8.3.2.2. The provisions of the Payment Systems Law authorize the Bank of Israel to designate a payment system as a "controlled system", if the activity of that system is essential for the entire payment infrastructure in the Israeli economy, and if there is concern that the dysfunctional, inefficient, or unreliable operation of the system could harm the economy's payment infrastructure. The meaning of this designation is that the Bank of Israel may conduct inspections of the systems in order to verify their stability, effectiveness and proper operation.

8.3.2.3. Hotam issued, since November 2016, a series of directives that apply the PFMI (Principles for Financial Market Infrastructure), as published by BIS (Bank for International Settlements) in April 2014, to the regulated payment systems of the Company, subject to some required adjustments for the local market, and for the payment systems. These directives include, inter alia, provisions pertaining access and participation requirements, indirect participation arrangements, corporate governance, economic business risk, credit risk, collateral and securities. To the best of the Company's knowledge, Hotam intends to issue additional instructions, which will affect the Company's activity.

8.3.2.4. On April 25, 2018, a directive was published regarding rules and policies for handling a participant default event. Under this directive, a payment system operator is required to establish clear rules and policies that will allow the payment system to continue fulfilling its undertakings towards non-defaulting participants, in case of a participant default event. These rules and policies will include reference to various subjects, including reference to a definition of the circumstances involving the announcement of a participant default event, and the distinction, if necessary, between participant default events of different kinds in the payment system, the method for identifying default by a participant - automatic or discretionary, the actions which a payment system operator may take in case of announcement of a participant default event in order to restrain it, including the means for implementing the default arrangement through arrangements involving liquidity and collaterals provided by participants, controls and mechanisms in place within the payment system to minimize the default's effects, possible changes to the routine processes implemented by the payment system to ensure proper continuous activity of the payment system, and setting in place the responsibilities of all of the parties involved in and/or affected by the participant's default, including the non-defaulting participants. Concessions were given to the Company in accordance with section 6 of the directive, regarding the determination of rules and policies allowing a payment system operator to take action in order to contain liquidity pressures before, during and after the announcement of a participant's default, and the Company received an extension for the implementation of the requirement regarding the management of the default arrangement, such that it will apply it two years after the publication date of the directive, in light of the fact that the arrangements in question are not currently implemented in the Company's payment systems. On January 28, 2020, the Company was given an additional extension, such that the actual implementation of the default arrangement will begin on April 24, 2021.

8.3.2.5. The Company is in late stages of a self-assessment regarding compliance of its charge card payment system with PFMI principles.

8.3.2.6. The Company is preparing for the implementation of the requirements determined by Hotam, and, in coordination with the aforementioned unit, to create and establish rules, in accordance with the international PFMI principles of BIS, which will regulate the activity of each one of the systems separately.
As part of the foregoing, the Company formed a committee of participants in the charge card system, in accordance with the directives of the Bank of Israel, which included a consultation with all those participants regarding the drafting of the rules, and on July 15, 2018, rules were published and became binding to all participants in the charge card services system. The Company also formed a committee of participants in the ATM switching system, which included consultation with all participants regarding the phrasing of the system's rules.

The following describes regulations applicable to the credit card companies and the banks, and partially also the Company, which may indirectly affect the scope of activities in the Company's field of activity:

8.3.3. <u>Open banking</u>

On February 24, 2020, Proper Conduct of Banking Business Directive 368 was published, titled "Implementation of an Open Banking Standard in Israel". The policy defines the infrastructure for open banking in Israel, in order to strengthen the customer's control over the financial information regarding them, and the method used to perform transactions in their account. The directive specifies, inter alia, the obligations of the banks and the credit card companies within the framework of open banking, customer protections, and tools for risk management of the banks and the credit card companies in the open banking environment, including an ability for the source which provided the information (bank or credit card company) to suspend its consent for transferring information in case of a reasonable concern of an information security breach at a third party. The directive does not apply to the Company.
On March 14, 2021, the Bank of Israel released a joint announcement together with the Government ICT Authority in the Ministry of Cyber and Digital Matters regarding a new

infrastructure for the Open Finance system, which is designed to help in promoting the open banking revolution, allowing third-party provides (e.g. various financial service providers) to obtain personal financial information of customers from an information source (e.g. a bank) in a simple efficient and secure way for provision of added-value services to the customer based on that information, and providing access to the personal payment account without exposing user information, contrary to the situation up to that launch.

8.3.4. <u>The Law for the Promotion of Competition in the Banking Market</u>

On January 31, 2017, the Law to Promote Competition in The Banking Market was published. The main provisions in the law that are relevant to the Company are:

8.3.4.1. The law set in place provisions for the purpose of holding controlling instruments in a Company, amended the Payment System Law and added therein Section 15B, which indicates that no person in a corporation can hold more than 10% of any type of controlling instruments therein; however, the Governor of the Bank of Israel, with consent of the Minister of Finance or based on a proposal by the Minister of Finance and approval of the Finance Committee of the Knesset may issue a decree enacting other provisions for that purpose regarding all holders of the Company or a specific type thereof, but provided that: (a) other provisions may not set in place a holding rate that is lower than 10%; (b) if participants in the payment system that the company operates hold more than 75% of controlling instruments therein, provisions will be put in place to ensure, as much as possible, that as long as participants hold controlling instruments at that rate, each type of participants may not hold over 50% of controlling instruments of the company.

8.3.4.2. Additionally, and for the purpose of appointing directors in the Company, it was determined that as long as participants of the interface system control or hold more than 50% or more of any type of controlling instruments in a company, or no additional regulated system is operational that interfaces between issuers and clearing entities to approve charge card transactions, the Company will be governed by the following provisions for the purpose of appointing directors, their term and termination of their service:

8.3.4.2.1. Any participant in the interface system may not appoint more than one director of the Company;

8.3.4.2.2. Most directors on the board of the Company are to be appointed by the general meeting of the Company per proposal of the Committee for Appointment of Directors in Banking Corporation, which was appointed under Section 36A to the Banking Law (Licensing).

8.3.4.2.3. That committee will propose candidates to serve as directors to the general meeting of the Company and one additional candidate of each qualification type that needs to be appointed.

8.3.4.2.4. All directors to be proposed to the general meeting of the Company by the committee must satisfy the terms set in Section 11E(b) to the Banking Ordinance, 1941. Additionally, the directors proposed by the Committee who are not external directors (who are governed by the provisions of the Companies Law) will be subjected to the provisions of Sections 239(d), 241, 244, 245(a), 245(a3), 245(b), 246, 247 and 249 to the Companies Law.

8.3.4.2.5. In this section, the terms "participant" or "interface system" are as defined by the Payment System Law, 2008.

For details regarding the implications of the Law to Promote Competition in The Banking Market, regarding the possibility to provide services to any entity, and not only to banking corporations and their customers, see section 8.12 below.

8.3.5. On October 25, 2017, the Committee for Evaluating Competition in the Credit Market (hereinafter: the "**Implementation Committee**") published measurable tests for evaluating the success of promoting competition in the banking market, as required pursuant to the Law to Promote Competition in the Banking Market. The tests constitute the basis for a semi-annual evaluation and report, which the committee will submit to the Knesset Finance Committee, and are expected to be used by the committee in its recommendation of steps to improve and increase competition in the market. The committee reserved the right to change, add to or remove tests from the list. A series of general tests were established. The general tests include tests pertaining to the removal of barriers to entry and barriers to customer migration, tests evaluating the entry of new competitors and customer activity, tests regarding the distribution of market shares, quantities and prices, and tests pertaining to payment methods. On May 22, 2018, the implementation committee published its first report, which focused on a description of the process and the progress on the performance of regulatory steps. The results of the tests may affect the charge card market in which the Company operates, including the determination of rules for regulating the status and activity of a hosted clearing entity (a clearing entity not directly connected to the payment system, and which executes the clearing process through another clearing entity), transferring the Ashrait protocol, as specified in section 8.3.1 above, and definition of the system rules, as specified in section 8.13 below.

8.3.6. <u>Recommendations of the inter-divisional task force at the Bank of Israel for increasing competition in the charge card segment</u>

8.3.6.1. In February 2015, the recommendations of an inter-divisional task force at the Bank of Israel were published, regarding increasing competition in the charge card segment (hereinafter in this section: the "**Task force**"), along with a series of draft directives and instructions of the Bank of Israel, pertaining to the implementation of the task force's conclusions.

8.3.6.2. The task force's conclusions pertain, inter alia, to increasing the use of debit cards (which are intended to allow the execution of payments by immediately debiting a checking account, when the transaction is executed), increasing competition in the charge card segment in Israel, and promoting the implementation of the EMV Standard in Israel, which is, as stated above, the generally accepted international standard for securing charge card transactions through payment terminals, which is intended to prevent credit card fraud.

8.3.6.3. As part of the measures to increase competition in the charge card segment in Israel, the task force recommended promoting a legislative amendment which will allow connecting non-bank-issued Clearing Customers holding a license for the charge card switch which is operated by the Company, either directly or through an existing clearing entity (indirect connection). However, in light of the fact that granting broad access to the Ashrait system, and exposing its operating methods, could lead to risk to the system and to its proper operation, the task force recommended that direct access to the system only be allowed for overseen entities, such as companies overseen by the Bank of Israel (banks, auxiliary corporations and Clearing Customers), and the Postal Bank.

8.3.6.4. The task force's recommendations also include an outline for implementing the EMV standard. Routine discussions are being held with the Bank of Israel and other entities engaged in the charge card segment, regarding the report's recommendations, and the method of implementing them.

8.3.6.5. In June 2015, the Banking Supervision Department published a directive regarding the implementation of the use of the EMV security standard, both on the issuance side and on the clearing side. This directive, as well as directives that were subsequently issued by the Banking Supervision Department, include reference, inter alia, to timelines for the issuance of cards supporting the EMV Standard, and for the connection of terminals that support the standard, as well as the entry into effect of the mechanism for shifting responsibility from the issuer to the clearing entity. For an update regarding the timeline, see section 7.2 above.

<u>The following is information about regulation concerning the creation of an additional switch for the execution of charge card transactions and additional regulations that may affect the Company's activity:</u>

8.3.7. <u>Steps towards the creation of an additional switch for the execution of charge card transactions</u>

In August 2015, an inter-divisional task force, under the leadership of the Supervision of Payment Systems unit at the Accounting and Payment Systems Department of Bank of Israel published an interim report regarding the charge card transactions execution chain, and presented the following main recommendations:

(A) Expanding the activity and participation in the National Payment Council to include additional relevant interested parties.

(B) Forming a charge card committee.

(C) Regulating the principles and rules for the development and use of the communication protocol.

(D) Applying the communication protocol on a modular basis, in other words, to allow setting up terminal functionality in accordance with the needs of users.

(E) Ensuring that terminals support multiple applications and Contactless transactions in order to allow new players to enter, and to allow the development of advanced payment methods and additional routing methods.

(F) Creating a new central clearing interface for transactions in the ATM switch, in order to simplify the clearing process, reduce costs, and facilitate the entry of new players into the system.

(G) Additionally, the execution of immediate debit transactions in the ATM switch should not be required.

In July 2016, the final report of the Bank of Israel's inter-divisional task force for increasing competition in the charge card segment regarding the charge card transaction execution chain was published, in which the inter-divisional task force recommended the performance of a series of measures intended to remove existing barriers and open the market to competition, pertaining to various elements of the transaction execution chain.

Insofar as immediate debit transactions are executed through an ATM switch other than that of the Company, revenue is expected to experience immaterial adverse impact.

8.3.8. <u>Charge Cards Committee</u>

Further to the recommendations in the interim report regarding the charge card transactions execution chain, as described in section 8.3.7 above, in November 2015 the Bank of Israel formed the charge Cards Committee, led by the manager of Hotam and with the participation of various entities active in the charge card market (credit card companies, discount companies, producers, distributors, The Association of Banks in Israel, and representatives of Visa and MasterCard). The purpose of the committee is to establish and define the principles for activity and the rules for execution of transactions in the local charge card system, on the charge card switch (the criteria and conditions of access to the charge card switch, the principles and rules for the development and use of the communication protocol, the modular implementation of the communication protocol, follow-up regarding the implementation of criteria and rules, and evaluation of their effectiveness).

In July 2016, the committee published principles and related steps for the development and use of the communication protocol for the execution of charge card transactions (hereinafter: the "**Document of Principles**"), which set forth the following principles:

(A) Formation of a professional committee to reach decisions regarding the method for implementation of policy decisions (the committee will include Clearing Customers, issuers, processors and switches operating in Israel).

(B) Policy decisions regarding the content of the protocol will be made by the charge card committee.

(C) The protocol will be accessible to the system's participants.
(D) The use of the protocol will be in accordance with the business and technological requirements of each interested party.
(E) International standards will be adopted or complied with, as much as possible.
(F) The protocol will be modular.
(G) A standard key specification of the protocol will be established, which will allow easy transition between the players at each segment throughout the charge card transaction execution chain.
(H) Recommendations were made regarding associated steps for the implementation of the principles, which are intended to facilitate the entry of new players into the charge card transaction execution chain.

In May 2017, the Bank of Israel published a document regarding the obligatory and optional components of the protocol. This document outlines implementation of the EMV policy in the charge card market.

8.3.9. Report of the Committee on Promoting the Use of Advanced Payment Methods in Israel

Further to the recommendations of the Inter-Ministerial Committee on Advanced Payment Methods, led by the manager of the Accounting and Payment Systems Department at the Bank of Israel, which was formed in March 2014 for the purpose of regulations on advanced payment methods, the final report on the subject was published in June 2017. Key provisions included the following:

(A) Creating a central clearing infrastructure and secure national telecommunication infrastructure for the execution of payments using advanced methods;
(B) Formulating a law memorandum to regulate payment services, payment accounts and clearing and issuance services;
(C) Adjusting the current legal framework for activity using advanced payment methods;
(D) Installing technology in terminals to allow performance of Contactless transactions;
(E) Increasing the efficiency of the transaction performance chain for digital billing transactions;
(F) Advancing consumer education and creating consumer trust in advanced payment methods.

8.3.10. The Payment Services Law

In October 2020, the Payment Services Law, 5779-2019 came into effect, which establishes a standard arrangement of consumer protections in the field of payment services (hereinafter in this section: the "**Law**" or the "**Payment Services Law**").

The law formalizes the contractual relationship and consumer protections that apply to the provision of payment services, between a provider of payment services and its customers (payers or beneficiaries). Payment service providers within the scope of the law include, inter alia, banks, credit card companies, Clearing Customers, payment applications, and more, and it will apply to all existing and advanced payment methods.

The law cancels and replaces the Charge Cards Law; however, as opposed to the Payment Services Law, the Payment Services Law applies to many various types of payment services and payment methods, both physical and non-physical, and not only to the performance of transactions using charge cards (thus, for example, the law applies, inter alia, to the performance of transfers, deposits and withdrawals of funds from a bank checking account). Also, differently from the Charge Cards Law, the Payment Services Law set regulations for the first time in primary legislation, governing the duties that apply to the provider of payment services to beneficiaries (e.g., the clearing entity), towards the beneficiary (e.g., the business). The law includes provisions, inter alia, regarding payment services contracts (between a payment service provider and a customer, regarding the provision of payment services); Regarding the execution of transactions involving payment, cancellation or discontinuing the execution of a payment; Regarding the responsibility of payment service providers towards their customers, to execute payment transactions; Regarding cases involving the "malicious use" of payment methods; Regarding consumer protections that apply regarding account debit authorizations and regarding the prohibition of providing a discount to payers for using a certain payment method.

The Payment Services Law is based on the Charge Cards Law, and on relevant European regulations, in accordance with the principles that were determined in EU Directive PSD2.

It is noted that the new Payment Services Law excludes, inter alia, payment services that are given to a participant in the payment system. Therefore, the Payment Services Law is not expected to have a significant direct impact on the Company.

8.3.11. Memorandum of the Control of Financial Services Law (Provision of Payment Services)

In August 2018, the Control of Financial Services Law Memorandum (Regulated Financial Services) (Provision of Payment Services), 5778-2018, was published, further to the recommendation of the Committee on Increasing Competition in Common Banking and Financial Services.

The memorandum includes a proposal to establish provisions regarding the licensing of payment services, and to establish specific provisions regarding the regulation and oversight of those services, including significant obligations and restrictions to be applied to license holders regarding the provision of payment services. The memorandum includes a proposal to amend the Payment Systems Law, and to establish provisions to allow holders of licenses to provide payment services to participate, as direct or indirect participants, in controlled payment systems, in order to promote competition in the payment services provision market. It is further proposed to determine which requirements will be considered fair requirements for connection to a payment system, for those wishing to participate, including a proposal to determine that the aforementioned connection requirements will not include the imposition of restrictions that are not necessary for the participation of payment service providers in the payment systems, and that such requirements will not discriminate between the participants and those wishing to participate in controlled payment systems. It is further proposed to determine that a payment system operator will not engage in the provision of payment services, and that a controlled system operator will not be entitled to refuse connection by a payment service provider to the system on unreasonable grounds, including stipulating unreasonable conditions for participation in the system. It is also proposed that the Governor of the Bank of Israel will be entitled to impose financial penalties on a controlled system operator, for noncompliance with obligations that apply to a controlled system operator. The law will become effective one year after the date of its publication. The proposed law is expected to impose restrictions on the Company, due to its status as an operator of controlled payment systems.

This law memorandum is still in intra-governmental discussions, following hearing the public comments.

8.3.12. Memorandum of the Cyber Security Law and the National Cybersecurity Unit, -2018

In June 2018, the Memorandum of the Cybersecurity and the National Cybersecurity Unit Law, 5778-2018, was published in the Official Gazette (hereinafter: the "**Cyber Security Law Memorandum**"). The purpose of the memorandum is to define the purpose, responsibilities and authorities of the Cyber Security Authority, in the implementation of government policy. The memorandum includes, inter alia, a proposal for national regulation of cybersecurity, including the powers of the Cyber Security Authority for the collection of information from certain organizations, including the organizations listed in the Fifth Addendum to the Public Security Arrangements Law (Transitional Provision), 5776-2016 (hereinafter: the "**Public Security Arrangements Law**").

On November 19, 2019, the Company received an update regarding the decision of the Steering Committee on the Protection of Critical IT Systems, led by the National Cyber Security Authority, to recommend subjecting the Company (and Masav) to the Fifth Addendum to the Regulation of Security in Public Entities Law.

In February 2021, the Prime Minister's Office published a draft bill of the Authorities Law for Reinforcement of Cyber Defense (Temporary Provision), 5781-2021, which is designed to give the National Cyber Security Authority in the Prime Minister's Office the tools to cope

with cyber threats to the normal functioning of the Israel cyberspace and essential services provided on its basis. Those tools are expected to be enacted as a temporary provision, until the legislation of the Cyber Defense and National Cyber Security Authority Law.
Insofar as the recommendation is accepted, it could affect activities and investments that the Company may be required to perform in order to defend itself against cyber-attacks.
At this stage, and until the amendment to the Fifth Addendum has been enacted, the Company has agreed to work with the Cyber Security Authority under a voluntary guidance framework.

8.3.13. The Reduction of Cash Usage Law

On March 18, 2018, the Reduction of Cash Usage Law, 5778-2018, was published in the Official Gazette (hereinafter in this section: the "**Law**").
The law, which is based on the recommendations of the Committee on Reducing the Use of Cash in the Israeli Economy (hereinafter: the "**Locker Committee**"), determined that, over certain amounts, giving and receiving cash payments would be prohibited, in a wide variety of monetary transactions. The restrictions on the use of cash became effective on January 1, 2019, and the restrictions on the use of checks entered into effect on July 1, 2019. The regulatory process of reducing the use of cash could have various effects on the market of clearing and issuing charge cards: reducing the use of cash will require consumers to use alternative payment methods. Accordingly, an insignificant increase is expected in the use of charge cards and advanced payment methods. However, the scope of the increase is still unclear, since options for advanced payment methods available to consumers is continuously increasing. Some of the foregoing advanced payment solutions directly compete with charge card payment methods. Additionally, the Company's revenues stem from the number of transactions processed in its systems, and not the amount of transactions.

8.3.14. Corporate governance in public companies without a controlling shareholder

On March 10, 2021, the Ministry of Justice published a draft bill of the Companies Law (Corporate Governance in Public Companies without a Controlling Shareholder), 5781-2021, concerning alignment and revision of corporate governance rules that apply to companies that do not have a controlling shareholder. Most of the proposed amendments deal with the definition of "control", the composition of the board, including replacing the duty to appoint external directors with a duty to appoint an independent majority in the board, as well as adjustments to the mechanisms for appointment of directors and approval of transactions with dominant shareholders.
Additionally, on March 10, 2021, draft Companies Regulations (Matters not Constituting Interest) (Amendment), 5781-2021 was published, proposing to expand the definition of negligence regarding the interest of a director, by introducing a definition of "negligible connection", while outlining an open list of considerations for that purpose, and allowing to determine that even work relations or service as an officer in entities related to the Company may constitute negligible interest.

The foregoing section includes, inter alia, forward looking information. The main facts and figures that served as the basis for this information are facts and figures pertaining to the current situation of the Company and its business affairs, and various regulatory directives that apply to the Company, as these are known to the Company on the reporting date. The Company has no certainty that its forecasts and estimates will materialize, and the Company's operating results may differ significantly from the implied results described above, inter alia, due to changes to any of the foregoing factors, as well as their intensity, scope, and duration, and the Company's ability to handle them.

8.4. Developments in the markets of the operating segment, or changes in the characteristics of the segment's customers

The payment infrastructure in Israel has undergone a continuous process of change in recent years, due to the implementation of various reforms, technological developments and global developments. This change is leading, inter alia, to the promotion of various ventures in the field of advanced payment methods. For details regarding the effect of the transition to commercial websites that are not cleared in Israel, see section 7.6 above.

8.5. **<u>Technological changes in the operating segment</u>**

In November 2017, the Bank of Israel published a "Call for Proposal for the Receipt of Information regarding the Creation of Infrastructure for Clearing Immediate Payments in Israel". This process could adversely affect the scope of activity in the charge card market, since the new clearing system may allow the execution of payments by means other than the credit card companies (money that can move immediately from the consumer's bank account to the business's account through a payment system that will connect those accounts directly to one another). In the future, a connection of this kind may allow connections not only to bank accounts, but also to accounts with other payment providers (PayPal accounts, for example). Additionally, future developments of app-based payments directly from the bank account, and not through charge cards, may also affect the Company. Such changes may reduce the number of charge card transactions, and therefore reduce the Company's revenue and profit. For additional details, see section 8.10 below.

In response to the call for bids, Masav proposed to build an infrastructure that will allow for the creation of immediate payment systems. Accordingly, Masav developed an infrastructure to allow transfer of immediate payments. The use of the infrastructure depends on the requirements of the potential players, and the Company is unable to estimate to what extent and for what needs it will be used by the potential players.

Such uses may require obtaining regulatory approvals and development and marketing efforts by the various players. To the best of the Company's knowledge, significant development effort is required by third parties that are not the Company or Masav in order to use this infrastructure for competing purposes to those of the Company's customers. For additional details in connection with initiatives in the payment industry, see section 8.8 below.

According to the Company's position, as of the present date, the development of the aforementioned infrastructure should not create a conflict of interest between the fulfillment of any of the responsibilities of any of the Company's officers, and the fulfillment of their responsibilities as officers of Masav, and does not constitute competition against the Company's business, as specified below.

Both the Company and Masav provide to their customers (which include, inter alia, the banks and the charge card companies) an infrastructure for executing customer transactions, where the Company's infrastructure serves for transactions that are not based on money transfers between the banks, and Masav's infrastructure includes money transfers between the banks. The Bank of Israel published the call for bids as part of the effort to encourage market trends of developing additional payment methods.

Masav offered to build such infrastructure; however, it does not market or distribute immediate payment systems. Masav developed an infrastructure for the operation of such systems, insofar as they are developed, and the method for developing such systems, and the use thereof, does not depend on Masav, and is not performed by Masav.

Despite the fact that the profits of the Company and Masav are derived from the use of the infrastructure they provide, they have no influence on the scale of use of systems on the infrastructure. For additional details, see sections 8.8 and 19 below.

The conflict of interest issue will continue being evaluated in the future, and the Company will discuss it in accordance with the provisions of the law. In this regard, the Company has adopted a policy for the prevention of potential conflicts of interest, in addition to the Company's current policy regarding conflicts of interest and integrity, in order to prevent potential conflict of interest situations that could arise as part of the officers' fulfillment of their responsibilities in the Company, and the fulfillment of their responsibilities as officers in Masav, and determination of a mechanism to identify and handle potential conflicts of interest, including for the purpose of setting dates for reports by the board on this matter. For information about the mutual charging agreement with respect to conflicts of interest, see section 16.4 below.

The foregoing section includes, inter alia, forward looking information. The main facts and figures that served as the basis for this information are facts and figures pertaining to the

current situation of the Company and its business affairs, and various regulatory directives that apply to the Company, as these are known to the Company on the reporting date. The Company has no certainty that its forecasts and estimates will materialize, and the Company's operating results may differ significantly from the implied results described above, inter alia, due to changes to any of the foregoing factors, as well as their intensity, scope, and duration, and the Company's ability to handle them.

8.6. <u>Critical success factors in the operating segment</u>

The main critical success factors in the operating segment, including its various branches, are as follows: (1) scope of activities in the market; for example, the more charge card transactions are completed in the market (and processed by the Company), and the more places of businesses, the greater the Company's revenue from the activity of the approval and collection interface and from the clearing interface (which depends on the number of transactions, and not on their monetary value). And insofar as more cash withdrawal transactions are performed at ATMs of the various banks, the greater the revenue of the ATM switch segment (which depends on the number of transactions, and not on their monetary value); (2) development of new services by the Company and selling them to existing customers and to additional player in the payment market;
(3) the stability of service and real time availability for customers, as well as the maintenance and operation of advanced IT systems for the purpose of ensuring the availability and stability of the services provided by the Company, and providing support; (4) A professional and effective workforce, inter alia, to provide technical support to customers, and to resolve problems; and (5) Financing sources available for investment in innovative technological infrastructure as required to provide the services in the operating segment.

8.7. **<u>Main barriers to entry into the operating segment</u>**

The main barriers to entry into the operating segment include the following:

(1) Compliance with the provisions of the law and regulations applicable to companies of the Company's type;

(2) Technological development underlying the Company's operating segment, including the need for financial resources and professional knowledge required to make investments in technological infrastructure which include an operations unit, sophisticated data and telecommunication systems, risk management infrastructure, information security, etc.; The Company has developed an advanced, highly resilient system offering actual availability, as of the reporting date, of "five nines" (error-free system 99.999% of the time). With reference to its primary systems, the Company has two protected IT centers, designated IT systems and an experienced workforce.
As stated in section 8.1.6 above, the Company transferred the Ashrait EMV protocol for terminals to the Association that was created, which could make it easier for a competitor to build an infrastructure that may compete over the interface between it and the businesses. See section 8.3.1 above.

(3) Engagements with entities engaged in the operating segment. It is noted that the creation of an infrastructure to compete against the Company's activity would require multi-participant engagements - with businesses, with Clearing Customers, and with issuers. The Company's direct engagement is made vis-à-vis Clearing Customers and issuers, and it does not engage directly with businesses; however, the Company is connected, for communication purposes, to approximately 230,000 points of sale (POS) located at businesses throughout the country, such that any entity wishing to compete against the Company would need to create similar connections to the businesses. On this matter, it is noted that a scenario involving multiple Clearing Customers may also impose difficulties on the entry of new competitors, in light of the need for those potential competitors to enter into agreements with many entities, and to create communication connections with businesses, as stated above. For details regarding the entry of new Clearing Customers into the segment, see section 7.3 above.
The fact that the businesses are technologically connected to the Company's systems allows them to operate simultaneously vis-à-vis several Clearing Customers (divided according to the card brand), and to transition between the Clearing Customers rapidly and conveniently, while

the entry of competitors to the switch could affect the convenience of that transition, insofar as those competitors are not connected to all Clearing Customers.

8.8. **Alternatives to products in the operating segment and changes occurring therein**

As stated above, the Company provides approval and collection services and clearing interface services in connection with charge card transactions, as well as ATM switching services (as these services are defined above). There are alternative payment methods in the economy to charge card payments – i.e. checks and cash payments.

In recent years, new app-based payment solutions were launched, and as of reporting date, payments made through those apps are charge card-based, such that their interface also relies on the Company. International bodies and Israeli banks chose to make use of charge cards as the payment solution for the apps or digital wallets they hold. According to the Company's estimate, insofar as these payment solutions are not charge card-based, and insofar as the settling of accounts in respect of them does not include making use of the Company's products, these solutions may adversely impact the Company's revenue. The Company is unable to predict, at this stage, whether all international bodies and banks will choose to use the charge card infrastructure.

To the best of the Company's knowledge, products that may constitute an alternative to that Ashrait PC software of the Company include infrastructure software and hardware for points of sale which are marketed to businesses by various market entities (developers), and which allow the execution of charge card transactions in those businesses, similarly to, or as an alternative to, Ashrait PC software.

ATM switch - To the best of the Company's knowledge, one of the companies in the ATM industry operates an ATM switch that routes transactions directly to some of the issuers, without using the Company's switch.

8.9. **Structure of competition in the operating activity and changes therein**

Most charge card transactions made in Israel are authorized, and clearing services are given for them through the payment system operated by the Company. To the best of the Company's knowledge, the Company is not exposed to significant competition in the operating segment, and it is a primary provider of all services it provides. However, the Company is aware of the fact that advanced technological solutions exist that could change the payment world, including effects on Israel, and including changes as specified in section 8.6 above, which could impact the Company's results. The Company monitors developments in Israel and around the world, and evaluates courses of action accordingly.

The Company's competitive position, and the entry of new competing entities into the Company's area of activity, are mostly affected by possible regulatory changes, including a conditional exemption from approval of a restrictive arrangement, which was given by the Commissioner.

To the best of the Company's knowledge, as of the reporting date, global MasterCard gives partial clearing services of a relatively limited scale to various customers. As of reporting date, the clearing activity performed by global MasterCard, as stated above, has no impact on the Company's results, and to the best of the Company's knowledge, the amount of clearing activities in Israel not executed through the Company, is negligible.

With respect to possible competition in ATM switching services, it is noted that there are several companies in Israel operating machines for cash withdrawal, which route the transactions executed through their devices to the issuing bank, and not through the Company's services. Those companies potentially have the technology infrastructure in place for providing ATM switching services.

On December 22, 2020, the Ministry of Justice published "Call for Information: Proper Regulation regarding Cash Withdrawal Devices (ATMs)", which asked for public comments about the required regulation of consumer aspects and the different payment transactions and payment services performed using ATMs.

The Company also has several competitors that produce or distribute software that is similar to Ashrait PC.

To the best of the Company's knowledge, it is possible to transfer transactions directly to the international charge card brands, and to the best of the Company's knowledge, there is an issuer, which executes the transaction approval and collection process through the Company, although it executes the clearing interface directly vis-à-vis the international charge card brands, and not through the Company.

Additionally, to the best of the Company's knowledge, there is a Chinese charge card brand engaged directly with an issuer in Israel, and not through the Company's interface.

In September 2019, the Bank of Israel announced the granting of a bank license to Digital Bank, and in October 2019, a bank code was allocated to it. The Company is preparing to connect Digital Bank to its systems, and in February 2021, the Supervisor of Banks announced the beginning of activity of the Digital Bank on March 1, 2021.

The Company deals with its competition (as specified above) by providing professional, continuous and available service, through constant innovation and maintaining the highest standards in its industry, and maintaining competitive rates.

8.10. **Products and services**

For details regarding the services provided by the Company within its operating segment, see sections 8.1.1 to 8.1.6 above.

8.11. **Segmentation of revenue from products and services**

Presented below is a segmentation of the Company's revenues in respect of the services it provides in the operating segment in 2019 and 2020:

Service type	2020		2019	
	Revenue (NIS in thousands)	Proportion of the Company's total revenue	Revenue (NIS in thousands)	Proportion of the Company's total revenue
Terminals and PIN pads connected to the charge card switch (infrastructure-based revenue)	42,204	49%	38,455	47%
Transaction approval and collection and clearing interface (transaction-based revenue)	35,582	42%	35,454	43%
Other (1)	7,417	9%	7,684	10%
Total operating income	85,203	100%	81,593	100%

(1) Including revenues from ATM switching services, from the distribution of Ashrait PC and Ashrait EMV software, revenue from credit deduction services - advance payment services to businesses and adjustments, and others. The entire aforementioned revenue component constitutes less than 10% of operating revenue.

The Company's rates are published on its price list that is available on the Company's website.

The price list is updated at the Company's discretion, including notification on the Company's website, with no requirement for pre-approval from regulators, but with attention given to the provisions of the Economic Competition Law, the exemption decision by the Israel Competition Authority, and are also subject to the oversight of the Bank of Israel over payment systems.

During the last three years, the Company did not make any significant changes to the price list, except for: (1) A price update regarding the use of the ATM switch; (2) Adding a price per PIN pad, in the amount of NIS 4 per terminal; (3) Adding tariffs in respect of new services; and (4) Beginning the collection of a monthly payment from tens of thousands of connected terminals which do not process transactions.

It is noted, in connection with payment in respect of terminals that do not process transactions, that a dispute arose with Isracard, whose share in the revenue in respect of terminals that do not process transactions is significant, regarding the collection of that payment from the Clearing Customers. Beginning in the second half of 2019, Isracard pays its entire debt in respect of this service, under protest, and while notifying the Company that the dispute remained unresolved.

To the best of the Company's knowledge, the position of Hotam, which was presented to Isracard, with reference to the collection of a fee from terminals that are connected to the system, and that do not transfer transactions, was that those terminals received the same service and the same system resources as terminals that process transactions, and essentially, no restriction applies which prevents the Company from collecting a fee for the service it provides to terminals. Hotam notified Isracard that, as part of the oversight of the Company, they would begin evaluating the issue of the total cost of participation in the system, per participant, in consideration of the services that the system provides to participants.

In February 2020, Isracard notified the Company that, according to a calculation it conducted, the amount that the Company is entitled to collect in respect of each terminal amounts, at the most, to much lower sums than that charged, and that it intends to offset the differences due to that calculation from future payments, which it has not yet done as of the publication date of the report.

Isracard also has a dispute with the Company in respect of a charge regarding the use of PIN pads.

In January 2021, Isracard paid the Company a substantial part of the debt for using PIN pads, and has paid a significant part of the regular periodic payments for the PIN pads, without that representing their consent for the very collection of that fee or its amount, and the parties negotiate to bring this dispute to conclusion.

The Company's revenues from Isracard in respect of the use of PIN pad terminals until now have been immaterial.

It is hereby clarified that the method for resolving the dispute with Isracard will also apply to the other Clearing Customers from which the Company has revenue from those components.

The Company believes, based on, inter alia, the advice of its legal counsel, that it is fully entitled to receive revenue from those components, and that it is highly probable that a significant reversal of the amount of cumulative revenue already recognized in the financial statements from those components will not take place, once the dispute with Isracard has been resolved.

The Company received a demand from Hotam to establish a pricing policy for each payment system, evaluation of a system-level pricing structure and service-specific pricing structure and updated tariffs. The Company submitted to Hotam the pricing policy it adopted, and on January 27, 2021, a notice was received from Hotam that it had no objection to that pricing policy.

8.12. New products and new activities

- Authorization interface for CLC clearing – The Company has developed an authorization interface that will transmit transaction information directly from the business to the Company, through the issuer (solution operator), for the purpose of approval of transactions where CLCs (closed loop cards) are used. As of the date of issuing this report, the Company is examining cooperation with potential operators for a solution to work on that infrastructure, and talks to checkout device vendors for solutions to CLCs at POSs.
- For information about specification and development of a central solution for netting and clearing of ATM transactions, see section 8.1.4 above.

- Detokenization project - As discussed in section 7.5.3 above, the Company developed a technology interface for a detokenization project in its systems for a third party. Use of that service is for a fee, based on the price list.
- Enhanced verification in telephone transactions – The Company developed for credit card companies support of enhanced verification in telephone transactions, as there are required to implement by the relevant regulatory guidance. Use of that service is for a fee, based on the price list.
- Digital Bank – The new Digital Bank joined the ATM switch in 2021. For more information, see section 8.9 above.

8.13. <u>Customers</u>

Until 2017, the Company was entitled to engage in the provision of services only to banking corporations or their customers. Accordingly, the Company's customers in the past were the credit card companies and the banks only. In light of the amendment of Section 23 of the Banking Law (Licensing) in 2017, and as it lost its license to be a joint service entity, the Company is entitled to provide services to any person (subject to regulatory approval, if required). The Company's revenues from the three largest credit card companies in Israel (Isracard, MAX and CAL) together constitute a significant part of its operating revenue (in 2019 - 92% and in 2020 - 88%). It follows that there is a relationship of dependence between the Company and the credit card companies in Israel, the loss of whose revenue would significantly affect the operating segment.

The Company's customers are characterized as stable, and purchase the Company's services over the long term. The Company's engagement with its customers is based on agreements which include SLA (service level agreement) that the Company is required to provide to a relevant customer, and in accordance with the rules of the "charge card services" services, as specified below.

Pursuant to the Payment Systems Law, the Company is required to impose system rules, by virtue of its status as a "controlled payment system operator" for each of the regulated payment systems it operates. In July 2018, rules for the charge card services system (hereinafter: the "**Rules**") entered into effect, which form the basis for the Company's engagement with the system's participants. Those rules govern the activity of the charge card services system, which include both the system of the approval and collection interface and the system of the clearing interface (hereinafter in this section: the "**System**"), which include, inter alia, the following subjects:

- Ensuring the system's stability, effectiveness and proper operation;
- The conditions for participating in the system, including the conditions for submitting candidacy for participation in the system, the participant's qualifications, procedural steps for connecting to the system, suspension of participants, and cancellation of participation;
- Description of the system, including details of possible failure events, and methods for resolving them;
- Principles of risk management;
- Backup arrangements in case of emergency.

8.13.1. According to the rules, the direct participants bear full and exclusive responsibility for the risks they transfer to the system, due to its activities, the activities of their customers in the system, and the activities of the indirect participants and their customers which use the system through it, including activity framework where the indirect participant connects operationally directly to the system; Participants are not entitled to sell, license (or sub-license), rent out, market, distribute, assign, transfer or pledge their rights to use the system without the Company's advance written approval. Additionally, the Company and other parties on its behalf will not bear any responsibility or liability whatsoever for any action and/or omission and/or damage in respect of and/or associated with and/or due to the Company's position as the system operator and/or from its actions in accordance with the rules and/or any action and/or omission thereunder, except if all of the following conditions have been met (cumulatively): (A) The action and/or omission of the Company and/or of others on its behalf was done deliberately, or with gross negligence; (B) The damage which was caused was direct damage only, and not resultant or indirect damage, and in any such case, the total amount of damages may not exceed NIS 200,000.

The consideration in respect of the use of the system will be according to the Company's price list, as determined from time to time.

The rules provide that the payment system operator (the Company) is entitled to amend the rules, at its exclusive discretion, after discussing the proposed change in the committee of participants.

The signatures of the current system participants on annexes to the rules have been received by the Company. It is noted that one of the participants, which signed the rules, expressed before signing objections to the rules, and demanded that they be amended. The Company's position is that the rules were duly established, following consultation with the participants, and are in effect.

In addition, the Company also formalized rules for the ATM switching system. Those rules were discussed in the Participants Committee that the Company set up, and is preparing for their publication. The system rules document is expected to be sent to be signed off by the participants.

In the committee, the Company consults with all of the system's participants, but the Company will be the one to determine the final version of the rules. These rules take precedence over any previous agreement which was signed with the participants.

8.13.2. According to the exemption, the Company is obligated to ensure that the requirements regarding equality in access to its systems by all participants. In light of the above, and based on the provisions of the Economic Competition Law, the fees collected by the Company, inter alia, in respect of the use of the approval and collection services system and the clearing interface services system, are the same for all system participants, and the Company publishes, on its website, the rates for use of its systems, and a price list of its services, as determined by it from time to time.

8.13.3. Presented below is information regarding revenue from customers that account for over 20% of the Company's total revenue (total revenue in thousands of NIS, and as a percent the Company's total revenue):

	2020	2019	2018
	NIS in thousands		
Isracard and American Express			
Revenues	34,940	29,202	26,695
Proportion of total revenues	43%	42%	42%
MAX			
Revenues	18,519	16,083	15,158
Proportion of total revenues	23%	23%	24%
CAL and Diners			
Revenues	21,249	16,869	13,863
Proportion of total revenues	26%	24%	22%

8.14. Marketing and distribution

The Ashrait PC software of the Company is marketed through distributors. The distributors are, in some cases, software firms that provide business management solutions to the businesses, and incorporate Ashrait PC software into their solutions to enable executing charge card transactions. Some distributors provide payment gateway services to businesses and/or traders, using Ashrait PC software on their servers.

8.15. Competition

For details regarding the competition in the activity segment and alternatives to the operating segment's products, see section 8.9 above.

8.16. Seasonality

In light of the fact that the scale of charge card transactions, as well as the scale of transactions executed at ATMs, are mostly based on the level of private consumption in Israel, the seasonality in the Company's operating segments is mostly due to the seasonality of private consumption in Israel, which is characterized by high demand before the Passover holiday, in the months of the summer vacation, and before the High Holidays period; however, this seasonality has no significant effect on the Company's quarterly results.

8.17. Production capacity

The Company routinely makes evaluations and adjustments in respect of its ability to provide its services even in periods of high demand. In the past, the highest demand was recorded on holiday eves (as specified in section 8.16 above), and the Company met the demand. The Company has operating entities working 24 hours a day, seven days a week, and in case of malfunctions or other exceptional events, the Company activates other technical entities to solve the problems within a short timeframe. However, communication problems on a national level or on the communication media through which the businesses and participants are connected to the Company, or IT problems of the participants, may also affect the provision of the Company's services.

8.18. Property, plant and equipment

Until the last quarter of 2017, the Company's head offices were located in an office building that was rented from various parties. In the last quarter of 2017, the Company moved to its new offices at Azrieli Center, Tower A, at 26 HaRokmim St., Holon, which the Company leases from an unrelated third party, inter alia, in accordance with the requirements of the Banking Supervision

Department, as set forth in Proper Conduct of Banking Business Directive 355, regarding "Business Continuity Management". The Company signed an agreement with Masav, jointly and severally (each of which bears 50% of the rental costs), regarding the rental of an office site for a period of ten years, with an option to extend by two additional terms of five years each, and in total, for an additional period of ten years. The Company estimates, with a high degree of probability, that it will exercise the option.

The Company also leases spaces that are used as an alternative backup sites for activity of its employees, and uses an additional site for partial data backup, in accordance with the requirements of the Bank of Israel. At the end of 2019, the lease agreement in respect of alternative backup site expired, and the Company is currently negotiating an extension of the agreement.

The Company's significant property, plant and equipment include computers, data systems and infrastructure, telecommunication equipment and peripheral equipment, which are used in the Company's activities. The aforementioned IT and information systems are at the core of the Company's activity (including for backup purposes), and constitute the foundation for the Company's activity. The core systems are based on special computers designed to ensure maximum availability and to avoid loss of information in case of failure. Property, plant and equipment that are used by both the Company and Masav are purchased jointly by the two companies, some in equal parts and some in unequal parts, where in most cases, the Company's share is greater than the Masav's share (hereinafter: "**Shared Property**"). When purchasing shared assets, the cost is divided between the companies, and each company records, in its books, its share in the assets. The current expenses involving the maintenance of the shared property, including maintenance and warranty in respect of software and hardware, are managed in accordance with the charging agreement, as specified in section 16.4 below.

The Company routinely evaluates the status of the IT systems which it uses, against the technological needs and developments, and periodically upgrades its IT equipment. In July 2019, the Company entered into an agreement regarding the continued support for the existing computers, the purchasing of additional computers (front end), support and maintenance, for a total consideration of approximately USD 3.6 million (20% of the transaction is shared with and will be financed by the related company Masav). In September 2019, the computers arrived at the Company's sites, and were included as part of the Company's property, plant and equipment accordingly. The Company is the owner of proprietary software applications.

For additional details, see Note 7 to the financial statements.

8.19. <u>Research and development</u>

The Company has developed, and continues developing, IT and communication systems for its field of activity, as specified above.

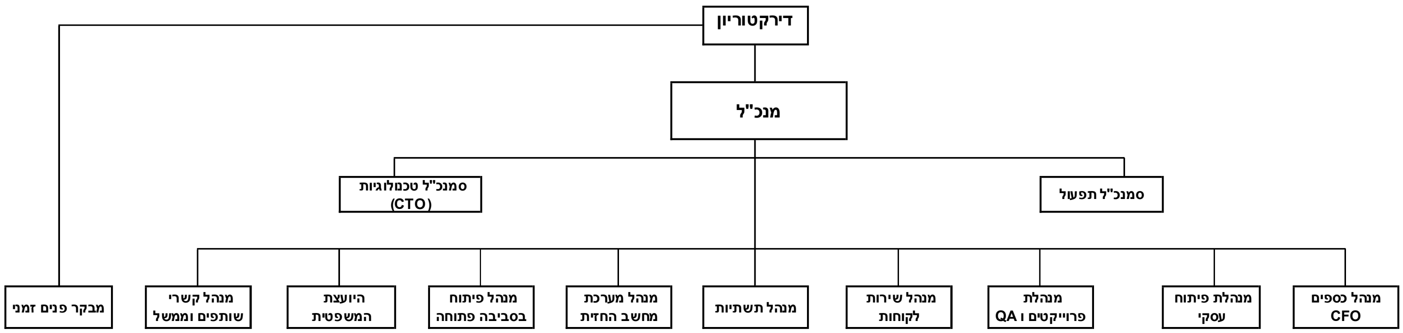
8.20. <u>Intangible assets</u>

The Company is the owner of the Ashrait trademark for the Ashrait PC software. The Company also holds databases regarding workforce and payroll and regarding automated bank services, in accordance with the provisions of the Protection of Privacy Law, 5741-1981.

Chapter D - Matters Pertaining to the Activity of the Company as a Whole

9. **Human capital**

9.1 The Company's organizational structure



The day-to-day management of the Company is the responsibility of the Company's CEO, who is assisted for exercising his duties by the management team, who serve as the executive arm of the Company and comprise the CFO, VP Legal and Regulation, CTO, VP Technology Development, VP Infrastructure, VP FrontEnd System Development, VP Business Development and Internal Auditor.

The following is an organizational chart of executives, including CEO and VPs, as existed as of the Date Close to the Date of Approving the Report:

For additional details regarding the Company's directors and officers, see Regulation 26 and 26A in the additional details below.

Board of Directors

CEO

CTO

CFO | VP Business Development | VP Infrastructure | VP Technology Development | VP FrontEnd System Development | VP Legal and Regulation | Internal Auditor

9.2 The Company's workforce

	Shortly before date of this report	31.12.2020	31.12.2019
Average number of positions during the reporting period*	95	89	78
Total employees *	98	95	80

*Not including overtime

The Company also has 5 external employees through external companies. Some of the Company's employees, who are employed by the Company, also provide services to Masav, and some of Masav's employees, who are employed by the Masav, also provide services to the Company, in accordance with the charging agreement which was signed between the Company and Masav, as specified in section 16.4 below.

9.3 Obligations to employees

The Company grants to its employees various bonuses during their periods of employment, such as annual bonuses, jubilee benefits, etc. Additionally, some of the Company's employees are entitled to a 13th salary, and some even to a 14th salary (supplementation of recreation pay to the base salary).

Some of the Company's employees are not subject to the arrangement in section 14 of the Severance Pay Law, 5723-1963. The Company has a central severance pay fund which covers, together with the employees' personal funds, all its liabilities in respect of severance pay to those employees.

9.4 **Welfare payments and services**

Additionally to their salaries, some employees of the Company also receive welfare services and payments, including: grossed-up payments for meals and vouchers for buying clothing.

9.5 **Absence of material dependency on any specific employee**

The Company has no material dependency on any specific employee/officer.

9.6 **Training and education**

In 2020, the Company invested in the professional development of Company employee, which was reflected in individual professional courses to employee; professional certifications; mandatory organizational-wide training about data security, use of inside information, prevention of sexual harassment and enrichment talks on diverse topics.

9.7 **Organizational culture and code of ethics**

The Company has a longstanding tradition of providing professional and reliable service, and strives to operate fairly, with integrity, and with honor, towards its business partners, its direct and indirect customers, and its employees. The Company has also established operational excellence as a central value guiding its activity, and operates in accordance with a code of ethics, which was distributed to all employees. The Company has also implemented an internal enforcement plan in the area of securities law and corporate law.

9.8 **Significant efficiency and cost-cutting plans**

The Company operates all its services through a limited number of employees, thanks to efficient work processes, and dedicated and professional employees. There are therefore no significant plans regarding increased efficiency and/or cutback in human resources. However, the Company consistently works to continue increasing the efficiency of processes, and to adjust the organizational structure according to its strategic goals.

9.9 **Signing of collective bargain agreements**

The following is a summary of collective agreement applicable to the Company and its employees:

Further to a notice sent by the Histadrut New General Federation of Labor (hereinafter: the "**Histadrut**") to the Company, the Company notified the Histadrut that it recognized it as the representative labor union of the Company's employees.

Further to the above, on November 19, 2017, the first partial collective agreement was signed between the Company, Masav, the Histadrut and employee union of the Company and Masav, regarding the transition of the Company's offices and Masav's offices to a new site, as stated above (hereinafter: the "**Transition Agreement**"). The agreement determines that any employee who was employed by the Company as of the signing date of the agreement, and as of the date of the transition to the new site, will continue being employed by the Company, and will not be dismissed due to the transition. In accordance with the agreement, inter alia, the Company's eligible employees received, in accordance with the criteria specified in the agreement, a two-part bonus, of which the first part was paid in December 2017, and the second part was paid after the signing of the full collective bargaining agreement.

On November 15, 2018, a special collective bargaining agreement was signed between the Company, Masav, and the Histadrut employee union of the Company and Masav (hereinafter: the "**Collective Agreement**"). The collective agreement was signed for the period from January 1, 2018 to December 31, 2022, and will be renewed automatically every two years, subject to each party's right to announce the termination of the agreement, by giving a notice 90 days in advance. The agreement applies to all employees of the Company, excluding the CEO, Executive VPs and VPs, managers reporting to the CEO, and other employees from the Finance, Human Resources, CEO's office staff and Information Security functions. The agreement includes an undertaking to pay a minimum monthly salary of NIS 6,000, and an undertaking to provide an annual salary raise in respect of 2018-2022 (beginning in July 2018) to employees, at a total annual rate of 3% of the base salary (plus fixed overtime if any is paid) (3.5% in 2018), or a raise at a lower rate, in case the Company does not meet the targets set in the agreement for all employees who are subject to the collective agreement, and who have completed 12 months of employment as of the payment date of the salary raise. Individual salaries will be raised according to a mechanism established in the collective agreement - i.e. 1% per employee, and the remainder is divided up between employees at the Company's discretion, with a maximum raise of 10% per year per employee.

Under the agreement, various additional benefits were granted to employees in various social fields, and the Company decided to grant those benefits also to employees who were excluded from the agreement.

The agreement also includes, inter alia, provisions regarding the hiring employees to work for the Company, the staffing of positions and employee transfers, work hours, employment policies, holidays, work environment and employment termination.

Concurrently with signing the collective agreement, a special collective agreement was entered into between the Company, on the one hand, and the Histadrut and the union, on the other hand, pertaining to the sale of the Company's shares by the banks. In accordance with the provisions of this agreement, the employees received, in accordance as specified by the agreement, a sale bonus of approximately NIS 1.2 million (between 50% of monthly salary and three salaries, depending on seniority, and up to a cap that was specified in the agreement). Note that in accordance with the resolution of the Company's Remuneration Committee and Board of Directors, officers of the Company, and employees excluded from the collective agreement, also received a sale bonus, under identical conditions to those specified in the collective agreement. In case the officer's employment is terminated for reasons other than retirement or dismissal within a period that is shorter than two years after the date of receiving the sale bonus, the officer will repay, upon termination of employment, an amount equal to 40% of the bonus. The total sale bonus that was paid to officers and employees excluded from the collective agreement, was approximately NIS 0.7 million. For more information, see not 12 to the financial statements.

On November 19, 2020, an addendum to the collective agreement was signed, which updated Appendix A to the agreement, containing the list of offices employed under individual contracts and excluded from the scope of the collective agreement.

9.10 **<u>Key legislative amendment</u>**

In 2020, no labor legislative amendments were approved that may materially impact the Company.

9.11 **<u>Officers and executives</u>**

<u>Chairman of the Board</u>:

Mr. Shlomo Bisteri has served as chairman of the Company since June 18, 2018.

On February 28, 2021, the Board of Directors approved the appointment of Mr. Bisteri as active chairman beginning on March 1, 2021 and through the end of his present terms in officer, i.e. January 2, 2024, subject to approval or absence of objection by the Supervisor of Banks to the extension of term as chairman.

On February 28, 2021, the Company called a shareholders' meeting, with the aim of approving the terms of employment of Mr. Shlomo Bisteri as active Chairman of the Board. For more information, see immediate report published by the Company on February 28, 2021 (Ref. no. 2021-01-024115).

<u>Directors</u>:

As of the Date Close to Approving the Report, nine directors serve on the Board of the Company (including the Chairman). Directors are not employees of the Company.

For information about the education and professional experience of board members, see disclosure under Regulation 26 in the Additional Corporate Information chapter.

On March 9, 2020, Mr. Yair Avidan stepped down as director of the Company, following his appointment as the Supervisor of Banks.

On November 1, 2020, Ms. Shani Federman-Terem began its term as director.

On December 31, 2020, Mr. Elik Etzion stepped down as director of the Company.
The service of Mr. Shai On, Mr. Ehud Wiesner, Ms. Eti Levi and Mr. Shlomo Bisteri was extended by additional three years.

On January 1, 2021, Mr. Yossi Levi began his service as directors.

<u>Senior management</u>:
Mr. Moshe Wolf serves as CEO of the Company and CEO of Masav since February 1, 2014.
On December 31, 2020, Mr. Wolf notified the Company of his intention to step down as CEO of both the Company and Masav. The end of this term is scheduled to June 30, 2021 (unless it is agreed on an earlier date). For more information, see immediate report published by the Company on December 31, 2020 (Ref. no. 2020-01-143436).
For more information on the terms of employment of Mr. Wolf as CEO of the Company, see note 20 to the financial statements and the disclosure under Regulation 21 in the Additional Corporate Information chapter.

Following the discussion in section 16.4 below, note that following a letter sent to the Company by the Bank of Israel and following the notification by the CEO that he wished to step down, as indicated above, the Company examined an option to separate the managements of the Company and Masav, including appointment of a separate CEO for each company. On March 17, 2020, the Bank of Israel (regulators of banks and payment systems) notified the Company and Masav that it did not oppose the steps proposed by the companies for implementing the separation of management teams, meaning that separate CEOs will first be appointed until June 30, 2021, and the new CEOs will later perform a process of learning and organization until September 30, 2021, followed by a process of planning, reorganization and hiring of the necessary staff for separating the management teams not later than October 2022.
The Bank of Israel expects that the required organization structure for each company will be formalized by each of the new CEOs, and will include, at the minimum, the following functions: risk management, legal and regulation, internal audit, finance, customer relation management, business development and human resources, with the appropriate number of employees for each function is to be determined based on the needs and considerations of each of the companies. Additionally, the companies will be able to outsource those functions.
For more information, see immediate report published by the Company on January 27, 2021 (Ref. no. 2021-01-011841) and an immediate report published by the Company on March 16, 2021 (Ref. no. 2021-01-036255).

Beginning on September 1, 2020, Chen Haryati CPA serves as the internal auditor of the Company. At the same time, Mr. Haryati also serves as the internal auditor of Masav.
For information about the senior management team of the Company, see the disclosure pursuant Regulation 26 in the Additional Corporate Information chapter.

<u>Compensation policy</u>:
On November 11, 2018, the executive compensation policy of the Company was approved. Under Regulation 1 to the Companies Regulations (Easements on the mandatory requirement for. Compensation Policy), 5773-2013. The effectiveness of the compensation policy as approved on the eve of publishing the prospectus of the Company is five years from the date of first listing of the Company's shares on TASE, i.e. from the beginning of June 2019. For information about the compensation policy, see Appendix A of Chapter 8 of the prospectus.
For information about the compensation paid in the reported year to the five higher earners from among the executives of the Company, see the disclosure pursuant Regulation 21 in the Additional Corporate Information chapter.

10. Providers

10.1. Shared activities of the Company and Masav

For details regarding the agreement between the Company and Masav, see section 16.4 below and Note 19.B.2 to the financial statements.

10.2. Service providers

The Company obtains services from a wide variety of providers in Israel and around the world, according to the various issues in the field of information systems and development, and is not significantly dependent on any provider, except for various services, mostly involving management and workforce services, and software and operation services from Masav, as specified in section 10.1 above.

The Company engaged with two third parties that are unrelated to the Company, and which provide various services that it requires in the field of information systems, including agreements regarding the purchasing and maintenance of equipment, and software purchasing. One of the aforementioned companies is the exclusive provider for the Company's central computers, and the other company, Hewlett Packard Enterprise ("HPE"), provides the unique front-end computer system that the Company uses. To the best of the Company's knowledge, the Company is one of the only customers using that computer in Israel, and the discontinuation of the engagement with HPE may cause the Company to incur highly significant additional costs in the short term, in light of the uniqueness of that system. The Company also buys communication services from various communication providers, through various access methods, such as (1) point-to-point communication services; (2) internet communication; and (3) dialup communication.

11. Working capital

The Company's working capital (in thousands of NIS) is as follows:

31.12.2020	31.12.2019
168,208	140,916

(*) Working capital, as presented in the above table, means the difference between: (1) the total sum of the Company's assets, excluding property, plant and equipment and assets whose period to disposal is expected to be over one year; and (2) the total sum of the Company's liabilities, excluding liabilities whose period to disposal is expected to be over one year. The increase of working capital as of December 31, 2020 was mostly due to the Company's profitability during the reporting period.

12. Investments

The Company's proprietary investment portfolio is managed by three portfolio managers, in accordance with the Company's investment policy, which was approved by the Company's Board of Directors, under the supervision of an external consultant who was appointed on its behalf. The Board of Directors is periodically presented with a written report regarding the performance in the Company's proprietary investment portfolio, and once a year, the Board of Directors discusses the need for an update to the investment policy and for the replacement of portfolio manager(s) whose performance did not meet the Company's expectations. The investment policy which was determined by the Company's Board of Directors is conservative, and as stated above, it is periodically evaluated by the Board of Directors. For additional details, see section 20.10 below. For details regarding the possible impact of the Coronavirus pandemic on the total number of transactions in 2020, see section 1.2 of the Company's Board of Directors' report.

13. Financing

The Company finances all of its activities using its own resources.

14. Taxation

The Company is assessed for tax purposes pursuant to the Income Tax Ordinance, and is registered as a "authorized dealer" for VAT purposes. For additional details regarding taxation, see Note 10 to the financial statements.

15. Restrictions and supervision of the Company

As stated above, in early June 2019, after completing a public offer of the Company's shares, the Company became a public company and a 'reporting corporation', as this term is defined in the Securities Law, and so long as the public holds securities of the Company, it will be subject to the provisions of the Securities Law, and of regulations enacted pursuant thereto. In light of the above, changes were made to the financial reporting regulations applicable to the Company, from a reporting framework which is based on the public reporting regulations and directives of the Supervisor of Banks, and on generally accepted accounting principles in Israel (Israeli GAAP), to a reporting framework based on International Financial Reporting Standards (IFRS) and the Securities Regulations (Annual Financial Statements), 5770-2010. As stated above, on June 2, 2019, the Governor of the Bank of Israel canceled the joint service company license which was given to the Company in 1981, and in accordance with the notice which the Company received from the Supervisor of Banks, for three years after the cancellation of the joint service company license, The Company is subject to certain Proper Conduct of Banking Business Directives as issued by the Supervisor of Banks, pertaining to corporate governance and risk management, as well as the provisions of section 11A of the Banking Ordinance, 1941, regarding the assessment of qualifications and suitability for directors and officers of the Company.

The Company is also supervised by the Payment and Clearing Systems Supervision Department at the Bank of Israel, by virtue of its status as an 'operator of controlled payment systems', pursuant to the Payment Systems Law. The Company also operates in accordance with the restrictive arrangement exemptions which have been issued by the Commissioner from time to time, and is subject to the relevant provisions in the Law for the Promotion of Competition in the Banking Market.

16. Material agreements

As stated in section 8.13 above, in accordance with the provisions of the law, the Company formulated rules for the charge card services system as the operator of a 'controlled payment system', which were distributed to participants, and which entered into effect in July 2018. Once the rules entered into effect, the agreements specified in section 16.1 below were not terminated, although the rules take precedence over any previous agreement signed with participants.

16.1. Agreements with credit card companies

16.1.1 Agreement with credit card companies - approval and collection interface

The Company engaged with CAL, Isracard and MAX[3] in agreements that govern the relationship between the parties, in connection with the use by credit card companies of the Company's approval and collection interface. The agreements were signed for an indefinite period, where each party has the right to terminate the agreement by giving advance notice of 180 days to the other party. As stated in this section 16 above, these agreements are subject to the provisions of the rules.

16.1.2 Agreement with credit card companies - clearing and account settlement interface

On September 12, 2001, an agreement was signed between the Company and the three credit card companies (MAX, CAL and Isracard), pertaining to the execution of a project involving the development of a clearing interface, whose development has been completed, as well as settling of accounts and operation of the aforementioned interface. As stated in this section 16 above, these agreements are subject to the provisions of the rules.

Charging the credit card companies for the services which are given in accordance with this section 16.1 is done in accordance with the Company's price list, as published on the Company's website from time to time. The Company's Board of Directors approved the Company's price list (including as specified in section 16.2 below) for a period of five years, and the Company's Audit Committee evaluated and approved the approval period on November 24, 2019. When updating the Company's price list, the Company evaluates the manner of approval of that update, in respect of the rates as of publication date of the report, in consideration of the provisions of section 268 of the Companies Law.

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3 The agreement was signed between the Company and Alpha Card. Upon the establishment of MAX, all of the rights and obligations of Alpha Card under the agreement were transferred to MAX.

For details regarding the rates that the Company charges for the collection of transactions from terminals, transaction authorizations from terminals, and the clearing interface, see section 6.17.1 of the prospectus.

16.2. Inter-bank agreement

As described above, the Company provides, inter alia, switching services between all ATM networks operated by the banks. On February 13, 1984, a mutual recognition agreement was signed between Bank Leumi, Bank Hapoalim, Bank Discount Mizrahi Tefahot Bank, and FIBI, which was later joined by Bank of Jerusalem and Bank Yahav, for the mutual recognition of ATMs which regulates the terms of the cross-use of the parties' ATMs, including on all matters associated with the cross-fee paid between them in respect of the withdrawal of cash from the ATMs they own, by entities other than their customers (hereinafter: the "**Mutual Recognition Agreement**"), and in accordance with the exemption given to the parties to the mutual recognition agreement on July 30, 2018.

To the best of the Company's knowledge, on March 25, 2020, a new mutual recognition agreement was signed (hereinafter: "**the New Mutual Recognition Agreement**"), which replaced the February 1984 agreement. Note that the Digital Bank notified the Company that it joined the New Mutual Recognition Agreement in May 2020.

The Company is not party to the New Mutual Recognition Agreement, and operates the ATM switch and charges, in accordance with the Company's price list, payment for each transaction and minimum payment, as required. As stated above, when updating the price list, the Company will evaluate the question of the manner of approval of such update, relative to the rates as of the publication date of the report, while considering the provisions of section 268 of the Companies Law, and the provisions of section 16.1.2 above).

For details regarding the rates charged by the Company, see section 6.17.2 of the prospectus.

16.3. Agreement with Bank of Jerusalem and Bank Yahav

In 2012, the Company engaged with Bank of Jerusalem and Tomer Jerusalem Ltd. (a subsidiary owned by Bank of Jerusalem) (hereinafter: "**Bank of Jerusalem**"), and in 2015 it engaged with Bank Yahav, in agreements regulating the connection of those banks to the ATM switch, and the receipt of services from the Company, and the payment for the receipt thereof. The connection of those banks to the ATM switch, and the provision of services by the Company to those banks, also required them to engage in the mutual recognition agreement, and to the best of the Company's knowledge, the aforementioned agreement was signed between those banks and the other banks, and Bank of Jerusalem and Bank Yahav currently receive from the Company all ATM switching services. For more information in relation to the Mutual Recognition Agreement, see section 16.2 above.

16.4. Charging agreement with Masav

16.4.1. The Company and Masav provide services to one another, use shared technological infrastructure, which is installed in the Company's main facility, and also use shared backup facilities. The companies also share services in telecommunications, management, information security, CEO and HQ services, finance, human resources, legal advisory, internal auditing, risk management and insurance. The Company has joint work teams, including software development and maintenance teams, infrastructure maintenance, servers, information security, telecommunications, telephony, shared offices, and more.

16.4.2. On December 27, 2017, a mutual inter-company charging agreement was signed between the Company and Masav (hereinafter in this section, jointly: the "Companies"), which established the arrangement for the settling of accounts between the Company and Masav. This agreement formalized understandings that had existed between the Company and Masav until that date, with changes whose impact on the Company is immaterial. On June 12, 2019, a new charging agreement was signed, replacing the aforementioned agreement (hereinafter: the "**Charging Agreement**"). The changes in the new agreement relative to the previous agreement had no significant impact on the Company's results.

16.4.3. The entry into effect of the charging agreement was made conditioned upon Automatic Bank Services becoming a public company. The charging agreement was signed for a five years period, from April 1, 2019 to March 31, 2024, subject to the right to terminate it before the end of the agreement period, provided that advance notice has been given, as specified below, and it will be extended automatically for an additional indefinite period, and will remain in effect so long as neither of the parties has exercised its right to terminate the agreement (hereinafter, any such period: the "**Extended Period**"). During the extended period, each of the parties will be entitled to terminate the charging agreement by giving written notice 36 months in advance. On November 24, 2019, the Company's Audit Committee approved the agreement period, including the extended period. During the extended period, after five years, insofar as the Company decides that it does not intend to terminate the charging agreement within the extended period, it will work to approve the agreement in accordance with the provisions of the law. The foregoing approval will not derogate from the Company's right to terminate the agreement prior to that date, in accordance with the provisions of the agreement, as stated above.

16.4.4. For additional details regarding the charging agreement, see sections 6.17.4 to 6.17.4.20 of the prospectus, whose contents are included herein by way of reference.

16.4.5. The Board of the Company resolved to examine the option of acquiring the shares of Masav from its current shareholders (hereinafter: "**the Transaction**"), and for the implementation of this resolution, the Board appointed a special and independent board committee ("**the Committee**"), with a mandate to examine the feasibility and economic viability of performing that transaction, negotiating its terms and bring its recommendations to the Audit Committee and the Board of the Company.

On January 5, 2021, the Committee made a non-binding acquisition proposal to Masav shareholders.

On February 28, 2021, the Committee informed the Board that after it acted to promote the transaction, including negotiating with shareholders of Masav and after receiving their response, it concluded that under the present circumstances, performing the transaction is not feasible. Therefore, on February 28, 2021, the Committee informed Masav shareholders that it withdrew its proposal, suspended its activity and reserved the right to approach them in the future according to developments.

For more information, see immediate reports published by the Company on January 6, 2021 (Ref. no. 2021-01-002094) and February 28, 2021 (Ref. no. 2021-01-024055).

17. Collaboration agreements

For details regarding the cooperation agreement between the Company and Masav, see section 16.4 above.

18. Legal proceedings

Legal proceedings are conducted against the Company from time to time, including motions to certify class actions (in various stages, including appeals), and in various financial amounts.

For a description of the significant legal proceedings to which the Company is party, and are pending against the Company, see Note 17 to the financial statements. No provisions whatsoever were included in the financial statements in respect of the legal proceedings pending against the Company.

19. Business objectives and strategy and expected developments in the coming year

The Company's main objectives and strategy are as specified below: Maintaining and increasing the stability of the Company's systems, and maintaining the availability of the main services that the Company provides to its customers in real time, due to the fact that they are services that constitute key systems in the payment infrastructure in Israel: Maintaining high level of technology, innovation and support for the development of products and services for the Company's customers, including expanding into new fields of activity, subject to the approval of regulators, as required.

In 2020, the Company continued to implement the strategic plan approved in 2019, which includes initiation and execution of business moves while investing resources in core systems of the Company, technology innovation and new developments to existing and new customers, all with the aim of establishing the Company as a leading national payment infrastructure – both from the organizational and business perspectives.

Within that framework, the Company continued in 2020 to develop different products as described in section 8.13 above, which provide the Company new revenue streams, along with potential business cooperation with new partners and improving its position in dealings with credit card companies and banks. Additionally, the Company continued a process of scaling up its technology systems and the ability to execute significant infrastructure and maintenance projects and formalizing a technology roadmap.
Given the many changes in the payment market, in the fourth quarter of 2020, the Company reassessed its strategic plan, with assistance from an external consulting firm, in order to continue establishing its position as a leading and significant payment infrastructure and increasing the scale and scope of its activity, among other things by diversifying its revenue sources, development and launch of new products and services, together with connecting new customers to existing services. Accordingly, the Company intends in 2021 to continue support and promote the EMV market integration process; to act to balance between new growth engines and defending existing revenues, both by reinforcing the relationships with existing customers and by preparing a response to future competition by alternative platforms and solutions; to continue grow abilities of the Company to implement, develop and execute projects and business initiatives, along with strengthening connections to the market and customers, and continue to maintain the existing systems while striving to modernize and realign abilities and technologies to future challenges.

The foregoing section includes, inter alia, forward looking information. The main facts and figures that served as the basis for this information are facts and figures pertaining to the current situation of the Company and its business affairs, facts and figures pertaining to the current situation in Israel that affects the Company's field of activity, various regulatory directives which apply to the Company, and macro-economic facts and figures, as these are known to the Company on the reporting date. The Company has no certainty that its forecasts and estimates will materialize, and the Company's operating results may differ significantly from the estimated or implied results described above, inter alia, due to changes to any of the foregoing factors, as well as their intensity, scope, and duration, and the Company's ability to handle them.

20. Discussion of risk factors

The Company is exposed to risks due to the environment in which it operates and the services it provides, which involve many complex work processes and systems designed to execute its tasks, as well as the regulatory framework applicable to its activity.

Macro risks:

20.1. **Coronavirus pandemic**

In January 2020, the Coronavirus (COVID-19) outbreak began in China, and as of shortly before the date of approving this report, it is continuing to spread around the world, including in Israel, and to cause significant uncertainty. As a result, economic activity has declined in many regions around the world, including in Israel, and global economic activity is shrinking, for a period of unpredictable duration. For details regarding the consequences of the continued COVID pandemic, and the Company's approach to dealing with it, see section 1.2. in the Company's Board of Directors' report.

20.2. **Strategic risk**

Strategic risk is the risk for damage to income, capital, reputation or status of the Company resulting from taking misguided business decisions, inappropriate implementation of decisions or lack of response to changes in the industry, economy, regulations and technology.

Strategic risks can be grouped into three types:

External environment – Risks arising from changes in the political, economic and social environments.

Competitive environment – Risks arising from changes in the competitive environment in which the Company is active.

Internal environment – Risk arising from decisions, processes or actions the Company has taken or avoided taking.

The Company operates in a dynamic and frequently changing environment, in both the technological and technology sense, and the Company's operating market includes a limited number of customers. These changes have significant implications for the Company's activity and results. The risk is managed at the level of the CEO and additional entities that are relevant to the Company's environment and business operations.

As stated in section 8.9 above, according to the Company's estimate, insofar as application-based or digital wallet-based, or other payment solutions are developed without being charge card-based, and insofar as solutions of this kind are indeed developed, and insofar as the settling of accounts in respect of them does not include making use of the Company's products, these solutions could adversely affect the Company's activity and business - damage which could be significant; however, the Company is unable to predict, at this stage, the progress on the developments, and consumer preferences regarding them. It is noted, with respect to payment apps, that the Company was informed by the bidders that, in accordance with a draft letter which was received, the Bank of Israel approved the use of the app for payment services to businesses, but determined that, for a period of three years, the banks will be entitled to allow payments to businesses within the framework of the app, at a limited scope, in an annual amount which will not exceed NIS 2 billion in 2019, NIS 2.5 billion in 2020, and NIS 3 billion in 2021 (whereby the limit will not apply to transfers between individuals). Additionally, the possibility for bank apps used to pay at businesses to operate based on an immediate payment service developed by Masav was also restricted, insofar as access to the service is not possible for non-bank-issued entities. It was noted that this restriction will be evaluated by the Banking Supervision Department on an ongoing basis, which will consider changing it insofar as it has identified significant market changes.

For information about the Bank of Israel position dated February 14, 2021 given developments in the payment industry and activity of digital wallets, see section 7.6.7 above.

The strategic risk management of the Company is based on coping through a strategy that is being reassessed continuously, and includes, among other things, the following:

Developing a strategic plan, including review and assessment of different events in the work environment (regulation, competition, technology, etc.) and projecting the expected changes relative each of the lines of operation of the Company, discussions in the Company's board of directors in which those changes are presented and the need for revisions to the strategy is reviewed.

Risk Manager periodically challenges the assessment of strategic trends as identified by the Company, and that way surfaces issues that are relevant to the strategic risk, if necessary.

20.3. **Regulatory risk**

A regulatory risk is the risk of a loss resulting from the impact of expected future regulation and/or guidance by different regulatory bodies. The Company is exposed to regulatory risk in relation to all its areas of activity. The business environment in which the Company operates is dynamic, and is currently at the focus of attention of regulators and lawmakers.

The major changes in this field include the work of the Committee for Increasing Competition in Common Financial Services (the Strum Committee), and the Law for the Promotion of Competition and Reduction of Concentration in the Israel Banking Market (the "Strum Law"), which was enacted in light of its findings, and the Competition Authority's decision regarding the transfer of the Company's rights in the EMV protocol to a non-profit organization, as specified in section 8.1.6 above. Additionally, decisions of the Commissioner may also impact the activity of the Company, as discussed in section 8.3.1 above.

Those changes may have material impact on the activity of the Company in the coming years. Regulatory risk management is performed while maintaining continuous connection with regulators, regular identification of new regulatory initiatives and referring them to the relevant officer or staff of the Company, and making regular reports to management about new initiatives.

20.4. **Compliance risk**

Compliance risk is defined as the risk of the imposition of legal or regulatory penalties, significant financial loss or reputation damage, which the Company could suffer by not complying with relevant regulations.

Without prejudice to the above, compliance risk management is an integral part of business activity of the Company, and is not only the responsibility of the Compliance function. Business lines bear consideration responsibility for compliance and take active part in the management and mitigation of compliance exposure in the Company. The Company is routinely active to integrate statutory provisions to prevent exposure to compliance risks.

20.5. **Legal risk**

A risk arising from the activity of the Company that is misaligned with primary or secondary legislation, guidance or instructions by a competent authority, case law precedence, and risk arising from legal proceedings pending against the Company. Additionally, legal risk also includes the risk of having a flawed legal opinion, including drafting agreements that do not protect the rights of the Company or failure to give appropriate guidelines following legislative and case law developments. The management of legal risk is an integral part of the business environment. Consequently, decisions about legal policy are taken jointly by business leadership and long-standing legal advisors of the Company, who specialize in the Company's area of activity and embedded risks therein.

20.6. **Operational risks**

Proper Conduct of Banking Business Directive 350 "Operational risk management" defines operational risk as "the risk for loss resulting from inappropriateness or a fault in internal processes, people or systems, or as a result of external events." This definition includes a legal risk, but does not include strategic or reputational risks. There are situations where other risks materialize, such as: credit risk, compliance risk and reputational risk as a result of operational failure.

The Company's core activity is providing technological services to its customers. The main risk category to which the Company is exposed is therefore the category of operational risks in general, and information technology risks in particular, including a commitment to business continuity. Operational risks affect all of the Company's operations and work processes, including:

- Risks due to failure of technological factors, including cybersecurity, such as system disruptions, inadequate backup of information systems, deficiencies in the information security system, or deficiencies in the routine operation of systems.
- Risks due to the inappropriate use and operation of physical assets, such as deficiencies in the infrastructure systems of the Company's offices.
- Risks due to inappropriate conduct, failure of human factors, failed guidance of employees and managers, or a decline in the quality and availability of the services provided by the Company.

The management of operational risk in the Company is implemented in accordance with the Proper Conduct of Banking Business Directive, which set the fundamental principles for managing the risk, among other provisions. Managing the risk by the Company is an ongoing process of identifying and assessing the risks, measuring the exposures and capital needs for covering them on a regular basis, and reporting to management and the Board.

- Three lines of defense – As a first line of defense, business units take the risk, and they are responsible for putting in place internal controls in order to reduce the risk and minimize the probability of the risks being materialized and the consequent damage. The second line of defense is the Operational Risk function, led by the Risk Manager, which is an independent outlining the policy and framework for proper management. The third line of defense is Internal Audit, which performs independent audits.
- Operational risk policies – The Company has policies for managing risks, which is validated and approved by management and the Board. This policy includes, among others, corporate governance for managing risk, a framework for managing risk and limits on risk appetite.
- Operational risk mapping – The Company has a map of operational risks to key processes of the Company. Risk mapping includes an assessment of the embedded risk, of the corresponding control and of the residual risk. Identification of the risks and their assessment are determined based on an internal methodology of the Company. The operational risk map is used as a tool to support business decision taking, and analyzing the level of operational risk exposure.
- Operating loss and near-miss events – The Company has an official process for reporting operational loss and near misses, as well as a process for learning lessons from such events. Collecting data on loss events, supports, among other things, the process for assessing the exposure to operational risk.
- Methodology for risk identification, measurement and assessment – The Company has a uniform methodology for identification and assessment of operational risk that are associated with its risks. Identification methodologies make use of a range of tools, and includes a quantitative and qualitative assessment of the risk, as well as assessment of the effectiveness of the controls to mitigate the risks.

20.7. **Information security and cybersecurity risks**

According to Instruction 361 on cyber security, cyber risk is defined as a potential for damage from a cyber event, considering the probability and severity of consequences. A cyber event is one in which computer systems and/or computer-embedded infrastructures are targeted by rivals (internal

or external to the Company) or on their behalf, which may cause materialization of the cyber risk. The Company, as a financial organization, is an attractive target for various attackers.
The IT systems, data networks and IT systems used by the Company's customers are targeted by cyber-attacks, injection of malware, phishing attacks, and other exposures, which are intended to harm the Company's services, steal information, or harm the Company's database.
The cyber security and cyber protection strategy document outline the concepts and targets adopted by the Company on those issues. The purpose of the document is to serve as a framework for data and cyber security and relevant work procedures, which define principles for management and implementation, areas of responsibility, officers, scope of competence, flow charts and the technology used by the Company. As part of its preparedness for coping with different cyber threats, the Company has in place internal and external processes for reducing cyber risk against it and its customers.
As part of the above, cybersecurity risks are managed through investment in development and improvement of system protection measures and using several security and control spheres to reduce the potential exposures to this threat.

20.8. **Reputation risk**

Reputation risk is the risk that a negative publication, market rumors or public perceptions with reference to the Company's activities will lead to compromised relationships between the Company and its customers, regulators or cause elevated legal costs or reduced revenue. Reputational risks are inherent to the activity of the Company and exist across the organization. Risk management in the Company is primarily based on a process of identifying reputational exposures (any action that may be associated with the Company and may create media coverage or negative discourse). Monitoring and response are performed continuously.
The Company is working to minimize this risk through routine monitoring and control over the implementation of directives and policies vis-à-vis customers, providers and employees. Most of the Company's activities involve a limited number of customers, who are highly familiar with the Company's field of activity.

20.9. **Risk of dependence on Masav**

As specified in section 6.17.4 above, the Company and Masav use shared technological infrastructure. The companies also share services in the fields of telecommunications, management, information security, CEO and HQ services, finance, human resources, legal advisory, internal auditing, risk management and insurance. The companies have joint work teams, including teams dedicated to software development and maintenance, infrastructure maintenance, servers, information security, telecommunications, telephony, shared offices, and more. Insofar as a decision is reached to terminate the engagement between the Company and Masav, and it becomes necessary to separate, then implementing a technical separation between the two companies will require changing from a situation involving shared primary and secondary server rooms, shared IT equipment, shared development and testing entities, and shared headquarters, to a situation in which each company has its own separate server room and IT equipment, development and testing entities, and administrative staff. A separation of this kind, if implemented, will require a process of planning the separation and the division of assets between the companies, as well as the recruitment and training of workforce, purchasing additional IT equipment and building additional server rooms (primary and secondary). The termination of the agreement with Masav, or even only changes to the terms of the agreement, could have a significantly adverse effect on the Company's results over a period of several years.
For details regarding the Competition Authority's notice of its demand for separation, see section 8.3.1.4 above.

Financial risks

20.10. Market risks

Market risk results from change in market conditions (change in pricing levels in various markets, interest rates, exchanges, inflation, share prices and commodity prices).
The Company has exposure to market risks in relation to its proprietary investment portfolio.

Its proprietary investment is managed based on a conservative investment policy, which is tested once annually. The responsibility for market risk management and oversight in the Company is of the Company's Board of Directors.

Portfolio management is performed by three portfolio managers, overseen by an external advisor who was appointed by the Company to monitor compliance with the investment policy in place. Performance of the portfolio and adherence with the policy adopted are periodically reviewed by management and the Board.

The Board examines once annually the need for updating the investment policy and the need for replacing those portfolio managers whose performance is below Company expectations.

20.11. Liquidity risk

Liquidity risk is a risk to profitability and stability of the Company arising from inability to provide its liquidity needs. The Company has excess financial resources and it does not rely on external credit sources.

20.12. Credit risk

Credit risk is the risk that customers of the Company will not pay amounts due from them. The main customers of the Company are credit card companies and banks, which have robust financial positions. Therefore, the exposure of the Company in relation to customer credit is minimal.

Presented below are the main risk factors to which the Company is exposed. The assessment of the risks, and of their respective effects, constitutes a subjective assessment by management. For the purpose of performing this assessment, definitions were established regarding the effects of the risks, while taking into account their magnitude of materialization, as follows:

- The effect was defined as **major** if the materialization of the risk could result in significant harm to the Company.
- The effect was defined as **moderate** if the materialization of the risk could harm the Company's business objectives
- The effect was defined as **minor** if the materialization of the risk could result in immaterial harm to the Company's business results.

No.	Risk	Summary description of the risk	Impact
1	**Coronavirus outbreak**	Macro risks due to the Coronavirus pandemic around the world and in Israel.	High
2	**Strategic risk**	Risk due to wrong decisions and/or implementation of business decisions. Strategic risk is affected by external and internal risk factors.	Moderate
3	**Regulatory risk**	Risk due to the possibility of regulatory changes and their impact on the Company's activity	Moderate
4	**Compliance risk**	Risk due to the possibility of failure to comply with legislative directives, regulations, obligatory standards and Company policies.	Moderate
5	**Legal risk**	Legal risk constitutes a part of operational risk. "Second degree risk" as a response to the materialization of other risks (for example, the materialization of the operational risk of embezzlement, or even a technical malfunction, could constitute grounds for claims or loss due to the inability to legally enforce the upholding of an agreement).	Low
6	**Operational risk**	Risk due to failed internal processes, deficiencies due to human activity, system failures and external events, including embezzlement, fraud and legal risks. The Company's activity involves various operational risks. In light of the nature of the Company's activity, it is mostly exposed to operational risks due to information technology management and business continuity.	High

7	**Cybersecurity and data security risk**	Risk associated with the use and exposure of sensitive information to internal or external entities, and attempts by hostile entities to penetrate the Company's systems, with the intention of harming the completeness, availability or confidentiality of the information.	High
8	**Reputation risk**	Direct risk - the possibility that negative press regarding the Company's business, actions or omissions, could damage the Company's reputation, volume of activity, liquidity and customer base. Indirect risk - the risk of adverse effects on the Company's profits due to a negative reputation created among interested parties (customers, shareholders, supervisors or providers), which could negatively affect current or new business ties, and access to financing sources or required services.	Low
9	**Risk of dependence on Masav**	Risk associated with the charging agreement and the engagement with Masav.	High
10	**Market risk**	A risk arising from changes in market conditions (interest, foreign currency, inflation and prices of financial assets)	Low
11	**Liquidity risk**	Risk which is defined as risk that the Company may encounter difficulties in servicing its liabilities when they come due, due to unexpected liabilities, or uncertainty regarding the availability of resources.	Low
12	Credit risk	The risk that customers of the Company will not pay amounts due from them.	Law

Report of the Board of Directors and Management as of December 31, 2020

Remarks of the Chairman of the Board

At this time, we are taking measured steps towards returning to normal, emerging from the year-long COVID crisis, which hit the larger economy and individual people, both in Israel and worldwide.
COVID began spreading globally in early 2020 and later came to affect Israel. In response, Israel and many other countries took varied actions and imposed restrictions designed to limit the impact of the virus, which was announced in March 2020 to be a global pandemic. Those restrictions changed over the period, in step with the scale of morbidity, and were reflected, among other factors, in significant changes in how purchases are performed (beyond online purchasing) and the scale of use made by the Israeli general public of credit cards. Consequently, this affected business results of the Company, with a drop in the number of transactions since the later part of March 2020. However, once restrictions were lifted and shopping malls were reopened, the use of cards recovered.
When the virus just started spreading in Israel, the Company was active to maintain overall functional continuity to be able to keep providing services to customers and respond to their needs, while having employees on board in terms commitment and professional conduct, through transition to working remotely and enhancing protection against cyber-attacks, which became more prevalent during that time. The activity was undertaken subject to all limitations and instructions, with strict protection of the health of all employees. As of the date of publishing this report, the business activity of the Company continues as normal, with some employees routinely working from the office while others work remotely. During COVID, the Company maintained its strong financial position, enabling it to successfully traverse this crisis. The Company currently does not expect to have its position and financing resources impacted in the short term, despite the uncertainty as of publishing this report regarding the long-term magnitude, duration and outcome of COVID. For this reason, we must continue to be attentive and alert to the impact on our customers and the wider public as this crisis unfolds.
The Company concluded 2020 with a 4% growth in activity compared to 2019, mainly thanks to market preparedness, the transition to EMV and revenue from new activities. The Company is committed to increasing stability of its systems and sustain availability of key real-time services, as they are an essential part of payment systems in Israel. In 2020, the Company continued implementing its strategic plan, which encompasses initiation and undertaking of business moves, with investment of resources in core systems, technology innovation and new developments, such as making infrastructure more accessible for development of payment applications for existing and current customers, with the aim of reinforcing its position as a leading payment platform in terms of infrastructure and business capabilities. During the year, the Company completed necessary preparations for integration of EMV in compliance with instructions of the Bank of Israel, as described in Chapter A to the periodic report ("Description of the Corporation's Business"). The Company is looking forward to 2021, where it intends to keep moving ahead with strengthening its position as a leading and significant payment platform, and expanding its activity accordingly. The Company will continue to support and encourage the adoption of EMV in the market; to balance new and existing growth engines by nurturing relations with customers and by getting ready to face future competition from alternative platforms and solutions; to continue solidify capabilities of the Company to initiate, develop and implement projects and business endeavors alongside reinforcing connections with the market and customers, and continue upkeep of existing systems as it strives to digitize and adapt solutions to future challenges.
Finally, I would like to thank our customers, who continue placing their trust in us, to management and employees for their contributions and dedication, which allow the Company to move forward in providing added value and stable, high-quality, accessible service to our customers, as well as members of the Board.

Happy Passover and be safe,
Shalom Bisteri
Chairman of the Board
March 25, 2021

Board of Directors' Report Regarding the State of the Company's Affairs

We are hereby honored to present to shareholders the Board of Directors' Report of Automated Bank Services Ltd. (hereinafter: the "**Company**" or "**Shva**") as of December 31, 2020 and for the one-year period then ended (hereinafter: the "**Reporting Period**"), in accordance with the provisions of Regulation 48 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

1. Board of Directors' Explanations Regarding the State of the Company's Business

1.1 Overview of the Company and its business environment

The Company is operating systems that allow, inter alia, the collection of charge card transactions from terminals at businesses, transferring approvals for charge card transactions, a clearing interface between Clearing Customers and charge card issuers, and sending approvals for cash withdrawal transactions at ATMs. See section 3 in the Description of the Company's Business.

1.2 The Company's activity during the reporting 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.

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

	For the year ended December 31	
	2020	2019
Debit transactions	1,560	1,644
Credit transactions	16	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 a clearing entity submitted through the Company to an issuing bank.

Presented below is the total number of account balance checks and withdrawals (in thousands of movements) and the amounts of withdrawal requests (in millions of NIS):

	For the year ended December 31	
	2020	2019
Total number of balance checks and withdrawals (thousands of transactions)	60,353	72,853
Total amount of withdrawal requests (in millions of NIS)	44,560	47,016

Significant trends, phenomena and developments

- Communications protocol – Following the discussion in section 8.1.6 in Chapter A (Description of the Corporation's Business) in the 2020 annual report of the Company, in March 24, 2020, the protocol association was registered with the Registrar of Associations.
- Transfer of the Company's rights to the EMV protocol –
  Following reports of the Company dated April 16, May 25 and July 23, 2020 (Ref. no. 2020-01-034372, 2020-01-052038, 2020-01-072220, respectively) which are brought in this report by way of reference.
  On July 23, 2020, the Company transferred all its rights to the protocol to a non-profit association. For information about this transfer of right, see section 8.1.6 to the Description of the Corporation's business.
- On July 6, 2020, the Company published an immediate report (Ref. no. 2020-01-063751) according to which, on July 5, 2020, a ruling was handed down by the Tel Aviv District Court, rejecting a motion to certify a class action that was filed against the Company and four banks regarding the legality of cash withdrawal fee that the Company charged for using its ATMs located within 500 meters from bank branches. For more information, see note 17 to the financial statements.
- On July 29, 2020, the Company published an immediate report (Ref. no. 2020-01-074368), according to which, on July 29, 2020, the Tel Aviv District Court handed down a ruling certifying the mutually-agreed motion by the plaintiff to withdraw the motion to certify a class action against the Company, without awarding expenses. The motion to certify will be eliminated and the personal claim by the plaintiff against the Company is also dismissed. For more information, see note 17 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 5 below.
- 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 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.
  • On December 27, 2020, the Commissioner filed a motion to the court (hereinafter: "the Motion") to exercise the powers vested in her by Section 50A to the Competition Law and order the Company and Masav to discontinue the restrictive arrangement between them within 30 days, or any other timeframe that the court may see fit in the circumstances of the case, provided they do not hold a permit under Section 13 to the Competition Law; a court approval under Section 9 to the Competition Law; or exemption from the duty to receive such approval under Section 14 to the Competition Law; alternatively, any other order that the court may see fit in the circumstances of the matter. On February 10, 2021, the court rejected the motion. For more information, see note 17 to the financial statements.
- On December 31, 2020, Mr. Wolf notified the Company of his intention to step down as CEO of both the Company and Masav. The end of this term is scheduled to June 30, 2021 (unless it is agreed on an earlier date). For more information, see note 19 financial statements.

Economic developments in Israel and in the credit card industry

The consumer price index increased by approximately 0.4% in 2020. According to the assessment of the Bank of Israel, the forecasted inflation rate for the coming 12 months is less than 1%.
The Bank of Israel left the interest rate unchanged at 0.1%. According to the outlook of the BoI, the interest rate is expected to remain at 0.1% until the end of 2022.

In 2020, the NIS gained against the USD by 6.8% and weakened against the EUR by 2%.

Purchases by credit card
In accordance with reports of the Israel Central Bureau of Statistics, total credit card purchases increased in 2020 by 3.8% in, following an increase of 7.9% in 2019.

Economic developments around the world
In January 2021, the International Monetary Fund revised its global growth forecast, which sees global growth contracts by 3.5% in 2020, with 5.5% growth in 2021.

Impact of COVID-19 on the Company's business activity -

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 COVID 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 some employees working from Company offices and others are working 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. 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. The second lockdown began in mid-September caused a shallower decline in the number of transactions relative to the first lockdown. Beginning in mid-October, the restrictions imposed in the second lockdown have been gradually lifted, leading to higher transaction numbers until the imposition of the third lockdown. Those changes were reflected in the Company's revenue in the quarters of 2020.

Note that according to the discussion in section 8.13 in Chapter A (Description of the Corporation's Business) in the Company's 2020 annual report, customers of the Company are characterized by their stability and they acquire services from the Company 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 available liquid finance resources of NIS 160,849 thousand, 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 the second quarter of 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 ones), a trend that continues until mid-September. The imposition of the second lockdown 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 this report, the intensity, duration and scale of COVID going forward is uncertain. The activity trend in the economy, which will impact the number of transactions until COVID is over, depends on the severity of the measures that may be implemented and the pace of economic recovery.

The reference made in this section to the Company’s estimates regarding future developments in the global and local economic environment, and in connection with the possible impact of these developments on its activity, constitute forward looking information, as defined in section 32A of the Securities Law. These developments and implications are not under the Company’s control, are uncertain, and are based on the information which is available to the Company as of the report approval date. Insofar as the global crisis deepens and continues for a prolonged period of time, it may lead to a significant adverse change to the Company’s operating results, including its financial ability to respond to this situation.

1.3 Financial position

Presented below is an analysis of the main changes in statement of financial position items as of December 31, 2020, as compared with December 31, 2019 (in thousands of NIS):

	As of December 31		Change	Comments and explanations
	2020	2019		
	Audited			
Assets				
Cash and cash equivalents	49,343	32,687	16,656	This increase mainly resulted from higher cash flows from operating activity, used also to increase the securities portfolio. The investment portfolio was affected by volatility and the rise of capital markets in the reported period.
Held-for-trading securities	111,506	98,478	13,028	
Trade receivables	17,974	19,161	(1,187)	The decline resulted primarily from a change in timing of regular payments by customers
Other accounts receivable	4,459	4,104	355	
Property, plant and equipment, net	18,960	18,543	417	The increase was due to the purchasing of new computers, after deducting depreciation and amortization expenses.
Intangible assets, net	2,935	3,919	(984)	The change resulted from investment in software and capitalization of costs into intangible assets less participation in development and periodic amortization.
Lease realization assets	9,110	9,567	(457)	Additions during the period less amortization.
Prepaid expenses	3,088	2,910	178	The increase was mostly due to the acquisition of a maintenance and support agreement for the new computers.
Deferred taxes	1,252	1,083	169	
Liabilities and equity				
Current maturities of lease liabilities	819	793	26	
Trade payables	1,357	3,000	(1,643)	The decrease is due to regular payments to suppliers.
Other accounts payable	17,123	11,866	5,257	The increase resulted primarily from an increase of accrued expenses and institutions.
Income tax payable	1,056	2,195	(1,139)	The decrease resulted from payment in the reported period for 2019.
Lease liability	8,481	8,815	(334)	
Liability for post-employment benefits, net	2,992	4,335	(1,343)	Actuary changes including those arising from retirement agreement.
Shareholders' equity	186,799	159,448	27,351	The increase during the reporting period was due to the profits in the year.

1.4 Operating results

Presented below is an analysis of the main changes in statement of income items as of December 31, 2020, relative to the corresponding period last year (in thousands of NIS):

	For the year ended December 31		Change	Comments and explanations relative to the corresponding period last year
	2020	2019		
	Audited			
Revenue from provision of services to credit card companies	77,786	73,909	3,877	The increase is mostly the result of revenue from terminals and the transition to EMV and revenue from new activities, which were partially offset by the decrease in the scale of activity. For more information, see the impact of COVID above and in note 2c to the financial statements.
Revenue from provision of services to others	7,417	7,684	(267)	This decrease is mainly attributed to the ATM activity and the impact of COVID
Total revenue	85,203	81,593	3,610	
Operating, general and administrative expenses	51,651	49,900	1,751	The increase was mostly due to higher cost of professional services and Board activity. The hiring of more employees was offset by capitalization of development costs and actuary revisions.
Operating profit	33,552	31,693	1,859	The increase in operating income is thanks to the trends indicated above.
Finance income (expenses), net	1,730	6,424	(4,694)	In the reported period, the capital market experienced volatility. The higher value beginning in the second quarter offset the decline in the first quarter.
Profit before taxes on income	35,282	38,117	(2,835)	
Provision for taxes on income	8,162	8,753	(591)	
Net profit attributable to shareholders	27,120	29,364	(2,244)	The increase in net income resulted from the trends described above.
Net earnings per share	0.68	0.73		

1.5 Presented below is an analysis of the main changes in statement of cash flows items as of December 31, 2020, relative to the corresponding period last year (in thousands of NIS):

	For the year ended December 31		Comments and explanations relative to the corresponding period last year
	2020	2019	
	(Audited)		
Net profit for the period	27,120	29,364	
Adjustments to profit	12,106	8,819	The change is mainly due to differences in financial income
Cash flows before changes in asset and liability items and before finance and taxes	39,226	38,183	
Changes to asset and liability items, net	4,033	(2,370)	The change is mainly due to an increase in accounts payable and a decrease in trade receivables
Cash flows from taxes and finance	(7,518)	(462)	The negative cash flow in 2020 is mainly attributed to payment of current taxes and payment of taxes for 2019.
Net cash provided by operating activities	35,741	35,351	
Net cash provided by (used in) investing activities	(18,181)	(23,040)	Expansion of the Company's securities portfolio, and investment in property plant and equipment.
Net cash used in investment activities	(904)	(846)	The negative cash flow resulted from repayment of lease liabilities.

1.6 **Financing sources**

The Company finances all of its activities using its own resources.

2. **Exposure to and management of market risks**

Officer responsible for market risk management in the Company

The officer responsible for the management of market risks is Mr. Moshe Wolf, the Company's CEO, in accordance with the investment policy determined, as stated above, by the Company's Board of Directors. For details regarding Mr. Moshe Wolf, see Regulation 26A in Chapter D of this report, additional details (hereinafter: "**Additional Details**").

Market risks to which the Company is exposed

The market risks to which the Company is exposed are mostly due to the holding of its portfolio of held-for-trading securities (hereinafter: the "**Proprietary Investment Portfolio**"). The proprietary investment portfolio amounted to a total of approximately NIS 111,507 thousand as of December 31, 2020. Cash and deposits in banks as of December 31, 2020 amounted to a total of approximately NIS 49,343 thousand. The aforementioned assets amounted, as of December 31, 2019, to a total of approximately NIS 131,165 thousand.

The Company's proprietary investment portfolio is presented in the financial statements at fair value, which is determined in accordance with the prices on the stock exchange as of the balance sheet date. The proprietary investment portfolio is mostly invested in Israeli government bonds. Therefore, the main market risk to which the Company is exposed are due to factors affecting the market for government bonds, including average interest rates and other exogenous factors. A small part of the proprietary investment portfolio is also invested, in accordance with the policy specified below, in stocks and corporate bonds, meaning that the Company is also exposed to market factors affecting stock prices in general.

Company policy regarding the management of market risks

The Company's Board of Directors bears overall responsibility for the Company's framework for the management of market risks, and for overseeing it.

The risk management policy was formulated with the aim of achieving a certain level of profitability from the proprietary investment portfolio, while minimizing risk, in accordance with the defined risk appetite. The investment policy adopted is conservative, and is evaluated and updated once per year. The policy most recently adopted by the Company's Board of Directors includes, inter alia, investments in the following assets:

- 80% of the value of the portfolio is invested in short- and long-term Israeli government bonds, bank deposits and treasury bills of the State of Israel and of leading countries around the world, with the average duration for the entire portfolio not exceeding 5 years, and the average duration of any single bond not exceeding 7 years).
- 20% of the value of the portfolio is invested in stocks and corporate bonds with a minimum credit rating of A (Maalot) or A2 (Midroog), and foreign bonds with a minimum international rating of BBB.

Oversight over management of market risks

The portfolio is managed by three portfolio managers, under the supervision of an external consultant who was appointed on the Company's behalf, and who oversees the implementation of the adopted investment policy. The Company's management and Board of Directors receive periodic reports regarding the portfolio's performance and implementation of the policy.

The Company's Board of Directors evaluates, once per year, the need for updates to the investment policy, and the need for replacing portfolio managers whose performance does not meet the Company's expectations.

2.1 Fair value of financial instruments and sensitivity tests

2.1.1 Fair value of financial instruments

	As of December 31, 2020 NIS in thousands				
	In Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Assets					
Cash and deposits in banks	48,473	-	870	-	49,343
Held-for-trading securities	62,100	39,111	10,295	-	111,506
Trade receivables	17,974	-	-	-	17,974
Other accounts receivable	2,410	-	-	-	2,410
Total financial assets	130,957	39,111	11,165	-	181,233
Current maturities in respect of lease	-	819	-	-	819
Trade payables	1,357	-	-	-	1,357
Other accounts payable	11,777	-	-	-	11,777
Income tax payable	-	1,056	-	-	1,056
Lease liabilities	-	8,481	-	-	8,481
Total financial liabilities	13,134	10,356	-	-	23,490
Net fair value of financial	117,823	28,755	11,165	-	157,743

	As of December 31, 2019 NIS in thousands				
	In Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Assets					
Cash and deposits in banks	32,687	-	-	-	32,687
Held-for-trading securities	50,923	38,789	7,980	786	98,478
Trade receivables	19,161	-	-	-	19,161
Other assets	2,404	-	-	-	2,404
Total financial assets	105,175	38,789	7,980	786	152,730
Current maturities in respect of lease	-	793	-	-	793
Trade payables	3,000	-	-	-	3,000
Other accounts payable	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	93,926	26,986	7,980	786	129,678

2.1.2 Effect of hypothetical changes in interest rates on the net fair value of financial instruments:

	As of December 31, 2020 NIS in thousands						
	Net fair value of financial instruments after changes in interest rates						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
Immediate increase of 1%	115,580	27,250	11,165	-	153,995	(3,748)	(2.38)
Immediate increase of 0.1%	117,598	28,605	11,165	-	157,368	(375)	(0.24)
Immediate decrease of 1%	120,065	30,261	11,165	-	161,491	3,748	2.38
Immediate decrease of 0.1%	118,047	28,906	11,165	-	158,118	375	0.24

	As of December 31, 2019 NIS in thousands						
	Net fair value of financial instruments after changes in interest rates						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
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

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

	As of December 31, 2020 NIS in thousands						
	Net fair value of financial instruments after changes in the prices of marketable stocks						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
Immediate increase of 10%	118,998	28,755	12,194	-	159,937	2,194	1.39
Immediate increase of 5%	118,405	28,755	11,680	-	158,840	1,097	0.70
Immediate decrease of 10%	116,658	28,755	10,136	-	155,549	(2,194)	(1.39)
Immediate decrease of 5%	117,240	28,755	10,651	-	156,646	(1,097)	(0.70)

	As of December 31, 2019 NIS in thousands						
	Net fair value of financial instruments after changes in the prices of marketable stocks						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
Immediate increase of 10%	95,020	26,986	8,777	865	131,648	1,970	1.52
Immediate increase of 5%	94,480	26,986	8,376	825	130,667	989	0.76
Immediate decrease of 10%	92,835	26,986	7,181	706	127,708	(1,970)	(1.52)
Immediate decrease of 5%	93,375	26,986	7,581	747	128,689	(989)	(0.76)

2.1.4 Effect of changes in the consumer price index on the net fair value of the financial instruments:

	As of December 31, 2020						
	NIS in thousands						
	Net fair value of financial instruments after changes in the consumer price index						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
Immediate increase of 2%	117,823	29,329	11,389	-	158,541	798	0.51
Immediate increase of 1%	117,823	29,041	11,278	-	157,142	399	0.25
Immediate decrease of 2%	117,823	28,179	10,943	-	156,945	(798)	(0.51)
Immediate decrease of 1%	117,823	28,466	11,055	-	157,344	(399)	(0.25)

	As of December 31, 2019						
	NIS in thousands						
	Net fair value of financial instruments after changes in the consumer price index						
	Israeli currency		Foreign currency			Change in fair value	
	Unlinked	CPI-linked	USD	Other	Total	NIS in thousands	In percent
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 in Connection with the Corporation's Financial Reporting

3.1. Dividend distribution

For details regarding restrictions on dividend distributions by the Company, see section 5 of the description of the Company's business, and Note 13 to the financial statements.

3.2. Change to the reporting format

For details regarding the change to the reporting format due to the Company becoming a public company, see Note 1 to the financial statements.

4. Events After the Reporting Period

For details regarding subsequent events, see Note 20 to the financial statements.

5. Corporate Governance

Directors with accounting and financial expertise:

- The Company's Board of Directors includes a sufficient number of directors with accounting and financial expertise to allow the Board of Directors to fulfill its obligations, mostly in connection with its responsibility to evaluate the Company's financial position, and the preparation of the financial statements.
- Considering the Company's current scope, size, and complexity of its operations, the Board of Directors determined that the minimum number of directors with accounting and financial expertise on the Board of Directors (and on the Audit Committee) is two.
- As of the reporting date, six of nine Board members have accounting and financial expertise, including the two external directors, and their knowledge on, and experience in financial matters was evident in the process of approving the Company's financial statements. After the Board of Directors evaluated the directors' declarations regarding their education and experience, as of the publication date of the report, the six directors whom the Company considers as having accounting and financial expertise are Zeev Zohar, Jacqueline Natalie Strominger, Ester Levy, Sharon Haran, Yossi Levy and Ehud Wiesner.
- For details regarding directors with accounting and financial expertise, and their education, see Regulation 26 disclosures in the chapter regarding additional details below.

Changes to the board of directors:

- On March 9, 2020, Mr. Yair Avidan stepped down as director of the Company following his appointment as Supervisor of Banks.
- On August 16, 2020, the general meeting of shareholders approved the appointment of Ms. Shani Federman-Terem as director of the Company for a three-year term, subject to approval by the Supervisor of Banks or absence of objection to the appointment. On January 11, 2021 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the appointment of Ms. Federman-Terem, who serves as director of the Company beginning on that date.
- On December 31, 2020, Mr. Elik Etzion stepped down as director of the Company.
- On November 2, 2020, the general meeting of shareholders of the Company approved the following resolutions:
  (1) The extension of tenure of Mr. Shai On as an external director of the Company (in accordance with the recommendation of the Committee for Appointment of Directors) for a three-year period, beginning on the date his current tenure ends, i.e. for three years after January 1, 2021, subject to obtaining the approval of the Supervisor of Banks or absence of objection to the appointment. On January 5, 2021 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the extension of the tenure.
  (2) The extension of tenure of Mr. Ehud Wiesner as an external director of the Company (in accordance with the recommendation of the Committee for Appointment of Directors) for a three-year period, beginning on the date his current tenure ends, i.e. for three years after January 31, 2021, subject to obtaining the approval of the Supervisor of Banks or absence of objection to the appointment. On January 24, 2021 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the extension of the tenure.
  (3) The extension of tenure of Ms. Ester (Eti) Levy as a non-external director of the Company (in accordance with the recommendation of the Committee for Appointment of Directors) for a three-year period, beginning on the date her current tenure ends, i.e. for three years after February 20, 2021, subject to obtaining the approval of the Supervisor of Banks or absence of objection to the appointment. On December 22, 2020 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the extension of the tenure.
  (4) The extension of tenure of Mr. Shlomo Bisteri as a director of the Company for a three-year period, beginning on the date his current tenure ends, i.e. for three years after January 2, 2021,

subject to obtaining the approval of the Supervisor of Banks or absence of objection to the appointment. On December 31, 2021 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the extension of the tenure.

(5) Appointment of Mr. Yossi Levi as director of the Company for a three-year period, beginning on the date on which the tenure of the director to be replaced by Mr. Levi ends, subject to obtaining the approval of the Supervisor of Banks or absence of objection to the appointment. On December 27, 2020 the Deputy Governor of the Bank of Israel notified the Company he had no objection to the appointment of Mr. Levi, and he began his tenure as a director of the Company on January 1, 2021.

Changes in management:

- On December 31, 2020, Mr. Moshe Wolf notified the Company of his intention to step down as CEO of both the Company and Masav, effective June 30, 2021 (unless an earlier date is agreed upon). For information about the terms of employment of the CEO, see note 19 to the financial statements and the disclosure under Regulation 21 to the Additional Corporate Information chapter.
- In July 2020, restructuring of the Company was approved to support business development, continued operations and growth.
- Beginning on September 1, 2020, Mr. Chen Haryati serves as Internal Auditor of the Company. Mr. Haryati replaced Mr. Ilan Hammel, who served as temporary auditor since January 1, 2020.
- Mr. Shmuel Gottlieb served until January 31, 2021 as VP Operations of the Company and is expected to step down at the end of September 2021.
- Ms. Keren Zitzer Maletzki served until February 28, 2021 as Deputy CEO and VP Products and Customers of the Company.
- Mr. Tamir Rafaeli, Head of Partner Relations and Governance, notified he will be stepping down at the end of March 2021 and leave the Company in June 2021.
-

Donations:
The Company has no donations policy. During the year ended December 31, 2020, the Company made donations in immaterial amounts.

The Company’s 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.

A. Details of the Internal Auditor

On July 9, 2020, Chen Haryati CPA was appointed as Internal Auditor of the Company (hereinafter: the "Internal Auditor"), subject to approval or absence of objection of the Supervisor of Banks, who on August 6, 2020 notified the Company that he did not object to the appointment. The Internal Auditor will take up office on September 1, 2020.

Mr. Chen Haryati has a bachelor degree in Business Administration, majoring in Accounting and Information Technology, from the Ono Academic College, a certified CPA since 2014, graduated a course on management of cyber security technologies and methodologies (CISC) from See-Security college, and is a Certified Information Systems Auditor (CISA) and Certified Data Privacy Solutions Engineer (CDPSE) from ISACA in the US, as well as a certified data analyst (CSA) from the Israel Chamber of Information Technology. Mr. Haryati has vast professional knowledge on internal audit, information technology and regulation. He is the founder and chairman of the Young Internal Auditors' Forum and member of the strategy committee of the IAA Israel – Institute of Internal Auditors; and until the end of 2020 served as member of the board, professional committee and marketing and digital committee of ISACA Israel (the Israeli chapter of a global organization for information security and audit).

To the best of the Company's knowledge, and according to the information provided to it by the Internal Auditor, he meets the conditions prescribed in section 3(a) of the Internal Audit Law, 5752-1992 (hereinafter: the “**Internal Audit Law**”). The Internal Auditor also complies with the provisions of section 146(b) of the Companies Law, and with the provisions of section 8 of the Internal Audit Law.

The Internal Auditor is an employee of the Company (and also provides internal auditing services to Masav under a master agreement between the two companies). He does not hold any securities of the Company and/or of any related entity thereof, and has no significant business ties or other significant ties with the Company or any related entity thereof, which could create a conflict of interest with his position as internal auditor.

The Board of Directors gained comfort that the previous internal auditor met the foregoing requirements, based on his declaration, and on an evaluation of the reports he submitted.

B. Methods of appointment

On July 9, 2020, the Company’s Board of Directors approved, after the Audit Committee's approval on June 30, 2020, the appointment of Mr. Chen Haryati as the Company’s Internal Auditor, as well as the terms of his tenure and employment (after approval by the Compensation Committee). His appointment was based on his qualifications and professional experience. On August 6, 2020, the Supervisor of Banks notified that he did not object to the appointment.

The Internal Auditor is working in accordance with a charter letter that was approved by the Company’s Board of Directors. The duties, authorities and responsibilities of the internal auditor were determined in accordance with the law, including in compliance with the Proper Conduct of Banking Business Directive that apply to the Company.

C. Oversight of the internal auditor

In accordance with the provisions of Proper Conduct of Banking Business Directive 301 titled "The Board of Directors", the internal auditor is working under the Chairman of the Board and reports to the Board of Directors through the Audit Committee.

The internal auditor has the authority to engage directly, and at his initiative, with the Audit Committee members, with Board members, or with the independent auditor, when appropriate, and all in accordance with rules that may be set in the Internal Auditor's letter of appointment.

D. Work plan

- The internal audit work plan was prepared based on the principles set forth in the Companies Law, in Proper Conduct of Banking Business Directive 307, Hotam directives, in commonly accepted professional standards, and in the internal audit policy which was approved by the Audit Committee, including the necessary adjustments, in consideration of, inter alia, the Company's size and scope of activity, and the various risks to which the Company is exposed.
- The internal audit function is working in accordance with a four-year work plan, which serves to derive annual work plans. The work plans of the internal audit function are discussed by the Audit Committee and approved by a committee of the Board of Directors plenum at least once per year, and when adjustments are required.
- For the purpose of determining the multi-annual work plan, and for the purpose of determining the annual work plan, the Internal Auditor consulted with the CEO, members of the management team, the Audit Committee Chairman and the Chairman of the Board.
- Creation of multi-annual work plan
  The multi-annual work plan is based on an analysis and assessment of the risks that are associated with the Company's various activities. The work plan of the internal audit division includes an emphasis on the implementation of regulatory directives, significant technological processes and critical infrastructure.
- The Internal Auditor has the discretion to deviate from the work plan, in response to changes and unexpected needs, and also to respond to special events and unplanned audits, including demands issued by competent entities, such as the CEO, the Board of Directors, and regulators. Subject to the update and approval of the Board of Directors.

- **Significant transactions**
  In general, the work plan of the internal audit function also includes the evaluation of material transaction authorization processes, if any, based on a comprehensive view of focusing on the risks.

E. Scope of resources available to the internal audit unit

The Internal Auditor is employed on a full time basis, with his time being divided between the Company and Masav.

When necessary, the Internal Auditor is assisted by expert external consultants, who specialize in performing audit tasks.

In 2020, a total of 2,850 audit hours (equivalent of 1.5 auditors working full-time) were invested. The scale of internal audit resources is determined according to the multi-year work plan.

F. Performance of internal auditing

- Internal auditing in the Company is performed within the framework of laws, regulations, directives and guidelines issued by the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, Hotam directives, regarding the internal audit function, and the instructions issued by the Board of Directors.
- The internal audit function also operates in accordance with the professional standards of the International Institute of Internal Auditors (IIA) (as well as those of the Israeli Institute of Internal Auditors – IIA Israel).
- The Internal Auditor develops and implements a quality assurance and improvement plan that covers all aspects of activity of the internal audit function. The quality assurance and improvement plan are designed to allow assessing the compatibility of the internal audit work to professional guidelines and standards for internal audit. The plan also includes an estimate of the effectiveness and efficiency of the internal audit work, and identifies opportunities for improvement.
- The Board of Directors, which (A) has evaluated the work plan of the internal audit function, and the implementation thereof, and (B) relied on the internal audit plan developed by the Internal Auditor, including a periodic self-review report on the activities of the internal audit function, believes that the Company's internal audit unit fulfills the rules which were determined for the work of internal auditing.

G. Access to information

Documents, files and information were submitted to the internal audit function, as specified in section 9 of the Internal Audit Law, and continuous and independent access was given to the Company's information systems, including financial data, as required for the performance of its tasks.

H. Internal audit reports

- The reports of the internal audit unit are prepared in accordance with the provisions of any applicable law, Proper Conduct of Banking Business Directive 307, Hotam directives, generally accepted professional standards, policies of the Board of Directors, and internal audit policies, including periodic reports, which are submitted in writing to the Company's Chairman of the Board, Audit Committee Chairman and CEO.
- During 2020, all reports of the previous internal auditor (until his tenure concluded) and of the Internal Auditor were discussed by the Audit Committee, and, in accordance with the instructions of the Audit Committee Chairman, some were also discussed by the plenum of the Board.

- A full updated and approved internal audit work plan was prepared. Any deviation from the original plan has been approved in advance by the Board of Directors / Audit Committee, while taking into account explanations presented by the internal auditor.

I. Board of directors' assessment of the Internal Auditor's work

The Board of Directors believes that the scope, nature and continuity of the Internal Auditor's work, and his work plan, are reasonable in light of relevant circumstances, and are adequate in order to achieve the objectives of internal auditing in the Company.

J. Compensation

- The terms of engagement with the previous internal auditor and of the Internal Auditor were approved by the Board of Directors, in respect of their engagement with the Company, and in respect of their engagement as the internal auditor of Masav. The attribution between the Company and Masav of expenses incurred on the engagement with the previous and Internal Auditor is done based on the current scope of activity of the two companies, and in accordance with the approved netting agreement.
- The Board of Directors believes that the payments to the Internal Auditor, and to the internal auditor do not influence their judgment.

Independent auditor:

- 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
- Presented below are details regarding the auditors' fees for 2020 and for 2019, in thousands of NIS:

For	**2020**	**2019**
Horowitz, Idan, Sabo, Tevet and Cohen Tabach (Baker Tilly Israel)		
Audit, clearing, SOX and current tax services	35	250
Other services	-	100
Number of audit hours and other	118	1,560
Kesselman & Kesselman (PwC Israel)		
Audit, clearing, SOX and current tax services	165	-
Other services	13	-
Number of hours for audit and other	1,620	-

Shalom Bisteri **Chairman of the Board**	**Moshe Wolf** **CEO**

Approval date of the reports: March 25, 2021

Automated Bank Services Ltd.
Financial Statements
For the Year Ended December 31, 2020

Financial Statements as of December 31, 2020

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Auditors' report to the shareholders of Automated Bank Services Ltd

With regard to audit of internal controls over financial reporting
pursuant to section 9B(c) of the Securities Regulations
(Periodic and Immediate Reports), 1970

We have audited components of internal controls over financial reporting of Automated Bank Services Ltd (hereinafter: "the Company") as of December 31, 2020. These control components have been determined as explained in the next paragraph. The Company's management and Board of Directors are responsible for maintaining effective internal control over financial reporting, and for an assessment of the effectiveness of components of internal controls over financial reporting, which is enclosed with the periodic report as of the said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting which we audited were determined in accordance with Israeli Auditing Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereafter: "Israel Auditing Standard 911"). Those Components are: (1) Entity-level control, including controls over the process of preparation and closing of financial reporting and general controls over information technology; (2) controls over revenue recognition; (3) controls over cash and investments; (4) controls over payroll and actuary; (5) controls over related parties (all the above together hereinafter - "the audited control components").

We have conducted our audit in accordance with Israel Audit Standard 911. This standard requires us to plan and perform the audit to identify the audited control components, and to achieve reasonable assurance whether these control components have been effectively maintained in all material aspects. Our audit consisted of an understanding of internal control over financial reporting, identification of the audited control components, assessment of the risk of material weakness in the audited control components, as well as review and assessment of the effectiveness of design and operation of said control components, based on the assessed risk. Our audit, with regard to the aforementioned control components, also consisted of other procedures we deemed necessary under the circumstances. Our audit is only in reference to the audited control components, unlike internal control of all material processes related to financial reporting, and therefore our opinion only refers to the audited control components. Further, our audit did not refer to mutual influence among audited control components and non-audited ones, and therefore our opinion does not take into account such potential influence. We believe that our audit, and the reports of the other auditors, provide an appropriate basis for our opinion within the aforementioned context.

Because of its inherent limitations, internal control over financial reporting in general and certain components thereof in particular, may not prevent or detect misstatement. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall 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, based on our audit and the reports of the other auditors, the Company effectively maintained, in all material aspects, the audited control components as of December 31, 2020.

We have also audited, in accordance with generally accepted audit standards in Israel, the Company's financial statements as of December 31, 2020 and for the year ended on December 31, 2020, and our report dated March 25, 2021 included our unqualified opinion of said financial statements.

Tel Aviv, Israel
March 25, 2021

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Independent Auditors' Report to the Shareholders of Automated Bank Services Ltd.

We have audited the statements of financial position of Automated Bank Services Ltd. (hereinafter: the "Company") as at December 31, 2020, as well as the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year in the period ended on that date. 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.

The financial statements of the Company as of December 31, 2019 and the year then ended were audited by a previous auditor, whose report thereon, dated March 30, 2020, included an unqualified opinion.

We have conducted our audit in accordance with generally accepted accounting principles in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973. According to these standards, we are required to plan the audit and perform it in order to obtain a reasonable measure of assurance regarding whether the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used and of the significant estimates made by the Company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements fairly reflect, in all material respects, the Company's financial position as of December 31, 2020, as well as its operating results, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Without qualifying our foregoing opinion, we hereby draw attention to that stated in Note 17 to the financial statements, regarding the decision of the Competition Commissioner concerning the issue of a conditional exemption from the approval of a restrictive arrangement.

We have also audited, in accordance with Israeli Auditing Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal controls over financial reporting as of December 31, 2020, and our report dated March 25, 2021, included an unqualified opinion on the presence of effective components.

Tel Aviv, Israel
March 25, 2021

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Statements of Financial Position as of December 31

Amounts in thousands of NIS

	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents	3	**49,343**	32,687
Held-for-trading securities	4	**111,506**	98,478
Trade receivables	5	**17,974**	19,161
Other accounts receivable	6	**4,459**	4,104
Total current assets		**183,282**	154,430
Non-current assets			
Property, plant and equipment, net	7	**18,960**	18,543
Intangible assets - software programs and licenses, net	8	**2,935**	3,919
Right-of-use assets	9	**9,110**	9,567
Prepaid expenses		**3,088**	2,910
Deferred taxes	10	**1,252**	1,083
Total non-current assets		**35,345**	36,022
Total assets		**218,627**	190,452

The accompanying notes to the financial statements are an integral part thereof.

Statements of Financial Position as of December 31

Amounts in thousands of NIS

	Note	2020	2019
Liabilities and equity			
Current liabilities			
Current maturities of lease liabilities	9	819	793
Trade payables		1,357	3,000
Other accounts payable	11	17,123	11,866
Current tax liabilities		1,056	2,195
Total current liabilities		20,355	17,854
Non-current liabilities			
Lease liabilities	9	8,481	8,815
Liability for post-retirement employee benefits, net	12	1,176	1,766
Liabilities for employee benefits	12	1,816	2,569
Total non-current liabilities		11,473	13,150
Total liabilities		31,828	31,004
Equity	13		
Share capital		4,587	4,587
Share premium		150	150
Other comprehensive loss		(3,938)	(4,169)
Retained earnings		186,000	158,880
Total shareholders' equity		186,799	159,448
Total liabilities and equity		218,627	190,452

The accompanying notes to the financial statements are an integral part thereof.

Shalom Bisteri Chairman of the Board	Moshe Wolf CEO	Ofer Eden VP of Finance and CFO

Approval date of the reports: March 25, 2021

Statements of Income for the Year Ended December 31

Amounts in thousands of NIS

	Note	2020	2019	2018
Revenues				
From the provision of services to credit card companies		77,786	73,909	62,154
From the provision of services to others		7,417	7,684	7,067
Total revenues		85,203	81,593	69,221
Operating, general and administrative expenses	15	51,651	49,900	48,813
Operating income		33,552	31,693	20,408
Finance income (expenses) from marketable securities, net		2,100	6,789	(1,737)
Finance income	16	20	7	141
Finance expenses	16	(390)	(372)	(18)
Finance income (expenses), net		1,730	6,424	(1,614)
Profit before taxes on income		35,282	38,117	18,794
Income tax	10	8,162	8,753	4,267
Net profit attributable to Company shareholders		27,120	29,364	14,527
Net earnings per share attributable to shareholders		0.68	0.73	0.36

The accompanying notes to the financial statements are an integral part thereof.

Statements of Comprehensive Income for the Year Ended December 31

Reported amounts in thousands of NIS

	2020	2019	2018
Net income	**27,120**	29,364	14,527
Other comprehensive income (loss) before tax:			
Amounts not subsequently to be recycled to profit or loss:			
Adjustments of liabilities in respect of employee benefits	**300**	(2,041)	(380)
Other comprehensive income (loss) before tax	**300**	(2,041)	(380)
Attributable tax impact	**(69)**	470	89
Other comprehensive income (loss) attributable to shareholders, after taxes	**231**	(1,571)	(291)
Comprehensive income attributable to shareholders	**27,351**	27,793	14,236

The accompanying notes to the financial statements are an integral part thereof.

Statement of Changes in Equity

Reported amounts in thousands of NIS

	Share capital	Share premium	Accumulated other comprehensive loss	Accumulated retained earnings(*)(**)	Total equity
Balance as of January 1, 2020	4,587	150	(4,169)	158,880	159,448
Changes during the year:					
Net income	-	-	-	27,120	27,120
Other comprehensive income	-	-	231	-	231
Total comprehensive income	-	-	231	27,120	27,351
Balance as of December 31, 2020	4,587	150	(3,938)	186,000	186,799

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

	Share capital	Perpetual loan (**)	Accumulated other comprehensive loss	Accumulated retained earnings (*)	Total equity (*)
Balance as of January 1, 2018	4,587	150	(2,307)	289,989	292,419
Changes during the year:					
Net profit	-	-	-	14,527	14,527
Other comprehensive loss	-	-	(291)	-	(291)
Total comprehensive income	-	-	(291)	14,527	14,236
Dividend paid	-	-	-	(175,000)	(175,000)
Balance as of December 31, 2018	4,587	150	(2,598)	129,516	131,655

(*) For details regarding the restriction on dividend distributions, see Note 13.

(**) See Note 14.

The accompanying notes to the financial statements are an integral part thereof.

Statements of Cash Flows for the Year Ended December 31

Amounts in thousands of NIS

	2020	2019	2018
Cash flows from operating activities:			
Net profit for the year	**27,120**	29,364	14,527
Adjustments required to present cash flows from operating activities:			
Adjustments to profit or loss items:			
Depreciation and amortization	**5,897**	6,089	4,959
Liability in respect of post-retirement employee benefits, net	**181**	179	157
Change in liabilities for employee benefits, net	**(404)**	222	9
Income tax	**8,162**	8,753	4,267
Finance (income) expenses, net	**(1,730)**	(6,424)	1,614
Changes in asset and liability items, net:			
Decrease (increase) in trade receivables and income receivable	**1,187**	(514)	(1,314)
(Increase) decrease in other accounts receivable	**(786)**	(2,485)	1,306
Increase (decrease) in trade payables	**(805)**	87	(181)
Increase in other accounts payable	**4,437**	542	2,351
Cash flows from operating activities before finance and taxes	**43,259**	35,813	27,695
Interest received	**2,568**	1,912	3,210
Interest and fees paid	**(547)**	(442)	(97)
Taxes paid, net	**(9,539)**	(1,932)	(4,511)
Net cash from operating activities	**35,741**	35,351	26,297
Cash flows from investing activities:			
Purchase of held-for-trading securities	**(82,723)**	(65,867)	(37,335)
Consideration from the sale of held-for-trading securities	**69,404**	49,959	195,286
Purchase of, and investment in property, plant and equipment and intangible assets	**(4,862)**	(7,132)	(4,239)
Net cash from (used for) investing activities	**(18,181)**	(23,040)	153,712
Cash flows from financing activities:			
Repayment of lease liabilities	**(904)**	(846)	-
Dividend paid	**-**	-	(175,000)
Net cash used for financing activities	**(904)**	(846)	(175,000)
Increase in cash and cash equivalents	**16,656**	11,465	5,009
Balance of cash and cash equivalents at beginning of year	**32,687**	21,222	16,213
Balance of cash and cash equivalents at end of year	**49,343**	32,687	21,222

The accompanying notes to the financial statements are an integral part thereof.

Annex to the Statements of Cash Flows for the Year Ended December 31

Amounts in thousands of NIS

Annex A - Non-Cash Material Operations	2020	2019	2018
Recognition of right-of-use asset against lease liability	**596**	10,455	-
Acquisition of property, plant and equipment against liabilities to providers and participation of related company	**-**	626	543
Classification of perpetual loan to share premium	-	150	-

The accompanying notes to the financial statements are an integral part thereof.

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 sold to the public by Company shareholders. The Company's shares were also listed on the Tel Aviv Stock Exchange, and trading of the shares began on June 12, 2019, and the Company became a public company (reporting corporation).

3. Until the beginning of June 2019, the Company was a banking corporation classified as a "joint service company", as this term is defined in the Banking Law (Licensing), 5741-1981. On June 1, 2019, the Governor of the Bank of Israel canceled the joint service company license that had been given to the Company. In light of the above, the holders of the Company's control instruments are not 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) do continue to apply. In accordance with the notice which the Company 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 Directives pertaining to corporate governance and risk management, as well as the provisions of section 11A of the Banking Ordinance, 1941 regarding the assessment of directors' qualifications and compatibility.

4. The Company is currently operating 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; and 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 transaction collection and authorization services, and in interface services for Clearing Customers and issuers, see Note 19.

Note 1 - General (Cont.)

B. Definitions

In these financial statements:

International Financial Reporting Standards (hereinafter: "IFRS")	-	Standards and interpretations which have been adopted by the IASB, including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations thereof which have been published by the International Financial Reporting Interpretations Committee (IFRC), or interpretations published by the Standing Interpretation Committee (SIC), respectively.
Company	-	Automated Bank Services Ltd.
Functional Currency	-	The currency of the Company's primary economic operating environment. This is usually the currency of the environment in which the Company generates and spends most of its cash.
Presentation Currency	-	The currency in which the financial statements are presented.
Interested party and controlling shareholder	-	As defined in the Securities Law, 5728-1968, including the associated regulations.
Related Parties	-	As defined in IAS 24
Related Company	-	Bank Clearing Center Ltd. ("Masav"), a company controlled by some of the banks, and under joint management with the Company.
CPI	-	The consumer price index, as published by the Central Bureau of Statistics.

C. **Disclosure about COVID-19**

In early 2020, the outbreak of COVID-19 began in China, and started spreading through many countries of the world including Israel, and was later designated by the World Health Organization (WHO) as a global pandemic. The spread of the virus and the different measures implemented in Israel and elsewhere in an attempt to curb the contagion, such as cancelling flights, restrictions on movement of residents, lengthy lockdowns, shut-down of entertainment venues etc. (hereinafter: "the Preventive Measures") adversely affected the global and local economies. COVID triggered an aggressive reaction of markets in Israel and worldwide, with prices sharply declining in all markets.

Since COVID first 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 some employees working from Company offices and others are working remotely (from home).

As of the date of this report, the intensity, duration and scale of COVID going forward is uncertain. The activity trend in the economy, which will impact the number of transactions until

COVID is over, depends on the severity of the measures that may be implemented and the pace of economic recovery.

D. The financial statements were approved for publication by the Company's Board of Directors on March 25, 2021.

Note 2 - Significant Accounting Policies

A. Basis for preparation of these financial statements

(1) The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter: "IFRS") and clarifications thereof which were published by the International Accounting Standards Board (IASB). The significant accounting policies specified below were applied consistently in respect of all of the reporting periods which are presented in these financial statements, unless stated otherwise.

(2) The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010.

Note 2 - Significant Accounting Policies (Cont.)

(3) The Company's financial statements were prepared on a historical cost basis, excluding assets and liabilities, mostly including financial instruments, such as investments in held-for-trading securities which are presented at fair value.

(4) The financial statements are prepared in New Israeli Shekels, the Company's functional currency, which is the currency that best reflects the economic environment of the Company's operations and transactions. The figures in the financial statements are presented in thousands of NIS.

C. Use of estimates and judgment

In its preparation of the financial statements in accordance with IFRS, the Company's management is required to use judgment, estimates and assumptions, which affect the implementation of the policy, and the amounts of assets and liabilities, income and expenses. It is hereby clarified that actual results may differ from these 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 which 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 these estimates, 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 were amended and in all affected periods in the future.

Note 2 - Significant Accounting Policies (Cont.)

Critical estimates

Presented below is information regarding critical estimates that were made in implementation of the accounting policy, and which have a significant impact on the financial statements:

Revenue recognition

The Company's revenue from credit card companies (hereinafter: the "**Clearing Customers**") include, since the last quarter of 2018, revenue from connected terminals which do not process 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 amounted, in 2020 and in 2019 to a total of NIS 12.8 million and NIS 8.8 million, respectively.

Isracard has a dispute with the Company regarding the charge on this item, which has caused a delay in its payments to the Company. During the second half of 2019, Isracard paid its entire debt in respect of this service, under protest and while notifying the Company that the dispute remained unresolved.

Isracard also has a dispute with the Company regarding a charge for the use of PP terminals. In Early 2021, Isracard paid the Company a substantial part of the debt for this item, and that clearing entity has paid a significant part of the regular periodic payments for the item, without that representing their consent for the very collection of that fee or its amount, and the parties negotiate to bring this dispute to a conclusion. The Company's revenues from Isracard in respect of the use of this item from the clearing entity is immaterial.

It is hereby clarified that the method for resolving the dispute with Isracard will also apply to the other Clearing Customers from which the Company generates revenue on those system components.

The Company believes, based on, inter alia, the advice of its legal counsel, that it is fully entitled to receive revenue for those components, and that it is highly probable that a significant cancellation of the amount of cumulative revenue which was recognized in the financial statements from those components will not take place.

Provision for claims

The Company has a provision for claims in accordance with the accounting policy specified in Note 2 to the financial statements, based on estimates by management and its legal advisors.

Note 2 - Significant Accounting Policies (Cont.)

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 many different factors, which are determined based on an actuarial valuation, using a large number of assumptions, including a 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 per year, based on the yield on high-quality corporate bonds. Other key assumptions are determined based on the market conditions, and based on the Company's accumulated experience.

A. Cash equivalents

Cash equivalents are highly-liquid investments, which include unrestricted short-term deposits in banking corporations, whose original maturity does not exceed three months after the investment date, or which exceeds three months but can be called immediately without a penalty, and which constitute a part of the Company's cash management.

B. Property, plant and equipment

1. **Recognition and measurement**

Fixed asset items are measured at cost less accrued depreciation and losses from impairment. Income or loss due to the derecognition of a component of property, plant and equipment is determined by comparing the net consideration from the derecognition of the asset to its carrying value, and is recognized on a net basis under the item for other income in the statement of income.

2. **Subsequent costs**

The cost of replacing a part of a fixed asset item is recognized as part of the carrying value of that item if it is expected that the future economic benefits embodied in that item will flow to the Company, and that its cost is reliably measurable. The carrying value of the replaced part is written off. Current maintenance costs are carried to income as incurred.

3. **Depreciation**

Depreciation is carried to the statement of income according to the straight-line method throughout the estimated useful lifespan of each of the fixed asset items. Leased assets are depreciated throughout the shorter period of either the lease period or the period of the assets' use.

Note 2 - Significant Accounting Policies (Cont.)

The estimated depreciation rates, based on useful lifetimes, are as follows:

	%
Computers and peripheral equipment	20-33
Projects under construction	20-33

The estimates in respect of the depreciation method, the useful lifetime and the residual value are re-evaluated at least once at the end of each reporting year.

Leasehold improvements are amortized throughout the lease period (including the Company's option to extend the lease period), which does not exceed the asset's estimated useful lifetime.

C. Intangible assets

Intangible assets which are acquired separately are measured upon initial recognition at cost, plus direct acquisition costs. Costs in respect of self-generated intangible assets, except for discounted development costs, as specified below, are carried to the statement of income upon their materialization.

Intangible assets with finite useful lives are amortized throughout their useful lives, and are tested for impairment when indicators of impairment arise. The amortization period and amortization method of intangible assets are evaluated at the end of each year, as a minimum.

The estimated amortization rates, based on useful lifetimes, are as follows:

	%
Software and licenses	20-33

1. **Research and development costs**

   Research costs are carried to the statement of income upon their materialization. Intangible assets due to a development project or recognized self-development are recognized as assets if it is possible to prove the technological feasibility of the completion of the intangible asset, in a manner which makes it available for use or for sale; The Company's intention of completing the intangible asset and using it, or selling it; The ability to use or sell the intangible asset; The manner in which the intangible asset will generate future economic benefits; The existence of the required resources: technical, financial and others, which are available to complete the intangible asset, and the ability to reliably measure the expenses with respect thereto during its development.

   The asset is measured at cost and presented less accumulated amortization, and less accumulated impairment. The amortization of the asset begins once development has been completed and the asset is available for use. The asset is amortized over the asset's useful lifetime. An impairment test is performed once per year, and throughout the development period.

2. **Software programs**

   The Company's assets include computer systems which consist of hardware and software. Software programs that constitute an integral part of hardware that cannot operate without the software installed on it are classified as property, plant and equipment. However, licenses for standalone software programs which provide additional functionality to hardware are classified as intangible assets.

D. Leases

In January 2016, the IASB published IFRS 16 "Leases" (hereinafter: "IFRS 16" or "the Standard"). The Standard replaces IAS 17 (hereinafter: "the Old Standard") and IFRIC 4 and IFRIC 15. According to the Standard, leases are defined as a contract or part of a contract that conveys a right to use the asset for a period of time in exchange for consideration.

On January 1, 2019, the Company applied the Standard for the first time. As permitted by the Standard, the Company chose to adopt the standard according to the partial retrospective approach, where the balance of the right-of-use assets equaled the balance of the lease liability.

Note 2 - Significant Accounting Policies (Cont.)

According to this approach, restatement of comparative figures is not required. The balance of the liability as of the date of the Standard's initial adoption is calculated using the Company's incremental interest rate on the date of the Standard's initial adoption.

Presented below are details regarding the accounting policy which has been applied since the Standard's date of first-time adoption relative to the accounting policy applied in the past.

The accounting policy applied until December 31, 2018 in respect of leases was as follows:

The tests for classification of a lease as a finance or operating lease are based on the nature of the agreements, and are evaluated on the trade date according to the rules set forth in IAS 17. According to these tests, leases of the Company are classified as operating leases under which not all risks and rewards incidental to ownership of the leased asset are substantially transferred and are classified as an operating lease. The lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease period.

The accounting policy applied for leases since January 1, 2019 is as follows:

- The Standard requires lessees to recognize all leases in the statement of financial position. Lessees will recognize a liability in respect of the lease payments, and on the other hand will recognize a right-of-use asset, similarly to the accounting treatment for finance leases, in accordance with the standard which was canceled - IAS 17, Leases. Additionally, the lessees will recognize interest expenses and depreciation expenses separately.

- Variable lease payments which are not dependent on the CPI or on an interest rate, which are based on performance or use will be recognized as an expense by the lessees, or as income by the lessors, on the date of their materialization.

- In case of a change in variable CPI-linked lease payments, the lessor is required to re-evaluate the liability in respect of the lease, with the impact of the change being carried to the right-of-use asset.

- The Standard includes two exceptions in which the lessees are entitled to account for the leases in accordance with the current accounting treatment in respect of operational leases, in case of leases of assets with a low monetary value, or in case of leases for a period of up to one year.

- The lessor's accounting treatment was left with no significant change relative to the old standard, i.e., classification as a finance lease or operating lease.

The Company treats the contract as a lease contract when, in accordance with the contract terms, the contract involves a transfer of the right to control the identifiable asset for a certain time period, for a consideration.

1. The Company as lessee

   In respect of transactions in which the Company is the lessee, it recognizes, on the lease commencement date, a right-of-use asset against a lease liability, except for lease transactions for periods of up to 12 months, and lease transactions in which the underlying asset has a low value, for which the Company chose to recognize the lease payments as an expense in the statement of profit or loss, in a straight line throughout the lease period. As part of the measurement of the lease liability, the Company chose to adopt the expedient provided in the standard, and did not separate between the lease components and the non-lease components, such as management services, maintenance services, etc. which are included in that transaction.

Note 2 - Significant Accounting Policies (Cont.)

On the commencement date, the lease liability includes all of the unpaid lease payments, discounted by the interest rate implicit in the lease when it can be easily determined, or according to the Company's incremental interest rate. After the commencement date, the Company measures the lease liability according to the effective interest method.

The right-of-use asset on the commencement date is recognized in the amount of the lease liability plus lease payments which were paid on or before the commencement date, plus transaction costs which have materialized. The right-of-use asset is measured at cost, and is amortized throughout its useful life, or the lease period, whichever is shorter. When indicators of impairment exist, the Company tests for impairment of the right-of-use asset, in accordance with the provisions of IAS 36.

The following provides information about the number of years of depreciation of relevant right-of-use assets by groups of such assets. Leased assets are depreciated throughout the shorter of either the lease period or the assets' period of use, as follows:

	%
The Company's offices	5 (the lease period plus the option period)
Vehicles	33 (lease period)

2. Index-linked or USD-linked lease payments

   On the commencement date, the Company uses the current index rate / USD exchange rate as of the commencement date to calculate the future lease payments.

   In transactions where the Company is a lessee, changes to the amount of the future lease payments, due to changes to the index, are discounted (with no change to the discount rate which applies to the lease liability) to the balance of the lease liability, and are carried as an adjustment to the balance of the lease liability.

3. Options to extend and cancel the lease period

   The non-cancellable lease period also includes periods which are covered by an option to extend the lease, when it is reasonably certain that the option to extend will be exercised, as well as periods covered by an option to cancel the lease, when it is reasonably certain that the option to cancel will not be exercised.

   In case of a change in the expectation regarding the exercise of an extension option or the non-exercise of a cancellation option, the Company remeasures the balance of the lease liability in accordance with the updated lease period, according to the current discount rate on the date of the change in expectation, where the total change is carried to the balance of the right-of-use asset until it is written off, and beyond that, to the statement of profit or loss.

4. Amendments to lease terms

   When an amendment to is made to the lease terms which does not reduce the scope of the lease, and is not treated as a separate lease transaction, the Company remeasures the balance of the lease liability according to the amended terms of the lease, according to the updated discount rate as of the date of the amendment, and carries the total change in the balance of the lease liability to the balance of the right-of-use asset.

Note 2 - Significant Accounting Policies (Cont.)

When an amendment is made to the lease terms, which results in a decrease in the scope of the lease, the Company recognizes profit or loss due to the full or partial derecognition of the balance of the right-of-use asset and the lease liability. Subsequently, the Company remeasures the balance of the lease liability according to the amended terms of the lease, using the updated discount rate as of the date of the amendment, and carries the total change in the balance of the lease liability to the balance of the right-of-use asset.

5. Impact of the standard's initial adoption

The primary effect of the initial adoption of the standard applies to current lease contracts in which the Company is the lessee. According to the standard, as stated above, excluding certain exceptions, the Company recognizes, in respect of each lease contract in which it is the lessee, the balance of the liability against a right-of-use asset, as opposed to the policy which was implemented under the provisions of the old standard, which dictated that, in lease contracts where all risks and benefits implicit in the ownership of the leased asset have not been essentially transferred, the lease payments were recognized as an expense in the statement of profit or loss, on a straight line basis throughout the lease period.

The following is information referring to initial adoption of the Standard as of January 1, 2019:

The effect of the standard's initial adoption as of January 1, 2019, in respect of lease contracts which were in effect on the date of initial adoption, resulted in an increase of approximately NIS 10.3 million in the Company's total assets and liabilities.

The interest rate is determined according to the Company's financial risk, the average lifetime of the lease contracts, and other economic variables that are derived from existing borrowings by the Company. The weighted average interest rate used to discount the future lease payments in the calculation of the balance of the lease liability on the date of the standard's initial adoption was 1.5%-3.7%.

The impact of the adoption of the new Standard in 2019, relative to the previous treatment, led to a decrease in rental expenses (the Company's offices and vehicles) of NIS 1,196 thousand, and an increase in depreciation and amortization expenses of NIS 1,006 thousand, an increase in financial expenses at NIS 350 thousand, and a decrease in net profit of NIS 123 thousand. Cash used in financing activities also increased by NIS 846 thousand.

6. Expedients applied at the time of the Standard's initial adoption:

The Company elected not to recognize the balance of the lease liability and the balance of the right-of-use asset in respect of leases with lease periods shorter than 12 months, as of the date of initial adoption. Those leases were treated as short-term leases.

E. Financial assets

Financial assets covered under IFRS 9 are measured on the date of initial recognition at fair value plus transaction costs which are directly attributable to the purchase of the financial asset, except in case of a financial asset which is measured at fair value through profit or loss, whose transaction costs are carried to profit or loss.

1. Debt instruments

Note 2 - Significant Accounting Policies (Cont.)

Following initial recognition, as stated above, the Company classifies and measures debt instruments in its financial statements based on the following criteria:
The Company's business model regarding the management of financial assets, and the contractual characteristics of the financial asset's cash flows.
The Company's business model is to hold the financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset assure the right, on predefined dates, to the cash flows which constitute principal and interest payments in respect of the unpaid amount of principal. In light of the above, after initial recognition, the debt instruments in this group are presented in accordance with their terms, at cost plus direct transaction costs, using the amortized cost method.

2. Equity instruments

Financial assets which constitute an investment in equity instruments are measured at fair value through profit or loss. For equity instruments which are not held-for-trading, on the date of initial recognition, the Company is entitled to make a choice, which cannot be reversed, to present under other comprehensive income subsequent changes in fair value which would otherwise have been measured at fair value through profit or loss. These changes will not be carried to the statement of income in the future, not even upon derecognition of the investment.

3. Impairment of financial assets

The Company evaluates, on each reporting date, the loss provision in respect of financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two situations involving the recognition of a loss provision:

1. Debt instruments whose credit quality has not significantly changed for the worse since the initial recognition date, or cases in which the credit risk is low - the loss provision recognized in respect of that debt instrument will take into account the expected credit losses during the 12 month period after the reporting date.
2. Debt instruments whose credit quality has significantly changed for the worse since the initial recognition date, and whose credit risk is low - the recognized loss provision will take into account the expected credit losses throughout the instrument's life. The Company applies the expedient provided in the standard, according to which it assumes that a debt instrument's credit has not significantly increased since the initial recognition date, if it was determined, on the reporting date, that the instrument has a low credit risk.

Impairment in respect of debt instruments measured at amortized cost is carried to profit or loss against a provision. Most of the Company's financial assets have short credit periods, such as trade receivables, for which it is entitled to apply the expedient specified in the standard, in other words, to measure the loss provision in an amount equal to the expected credit loss throughout the instrument's entire lifetime.

The Company chose to adopt the expedient in respect of its financial assets.

4. Derecognition of financial assets

The Company derecognizes financial assets upon the fulfillment of the following conditions:

1. The contractual rights to cash flows from the financial asset have expired; or
2. The Company essentially transfers all of the risks and benefits arising from the contractual rights to receive the cash flows from the financial asset, or when the company keeps some of

Note 2 - Significant Accounting Policies (Cont.)

the risks and benefits upon transfer of the financial asset; however, it can be stated that it has transferred the control of the asset.

3. The Company still has the contractual rights to receive the cash flows from the financial asset, but accepts contractual obligations to pay those cash flows, in their entirety, to a third party, with no significant delay.

F. Financial liabilities

On the date of initial recognition, the Company measures the financial liabilities which are covered by the standard at fair value less transaction costs which are directly attributable to the issuance of the financial liability, except in case of a financial liability which is measured at fair value through profit or loss, whose transaction costs are carried to the statement of profit or loss. After initial recognition, the Company measures all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss, such as derivatives.

G. Derecognition of financial liabilities

The Company writes off a financial liability when it is settled - in other words, when the contractual obligation has been repaid or canceled, or has expired.
A financial liability is settled once the debtor has repaid the liability through payment in cash, through other financial assets, through goods or services, or has been legally released from the liability.

In case of changes to the terms of an existing financial liability, the Company evaluates:

- In case of a significant change to the terms of an existing financial liability, the change is treated as derecognition of the original liability, and recognition of a new liability. The difference between the balance of the aforementioned two liabilities is carried to the statement of income.
- If the change is immaterial, the Company is required to update the amount of the liability, in other words, to discount the new cash flows according to the original effective interest rate, with the differences being carried to profit or loss.

In the process of distinguishing whether the matter involves a significant change to the terms of an existing liability, the Company takes into account quantitative and qualitative considerations.

H. Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net result is presented in the statement of financial position, if there exists a legally enforceable right to offset the amounts which were recognized, and if there is intention to settle the asset and liability on a net basis, or to dispose of the asset and to settle the liability in parallel. The offsetting right must be legally enforceable not only during the ordinary course of business of parties to a contract, but also in the event of bankruptcy or insolvency of one of the parties. In order for the offsetting right to be available, it must not be contingent on any future event, and there must not be any time periods during which it does not apply, nor any events occurred which would have caused it to expire.

I. CPI-linked assets and liabilities which are not measured at fair value

The value of CPI-linked financial assets and liabilities which are not measured at fair value is revalued in each period in accordance with the actual rate of increase of the CPI, and is carried to the statements of income.

J. Liabilities for employee benefits

The Company has several types of employee benefits:

Note 2 - Significant Accounting Policies (Cont.)

(1) Short term employee benefits

Short-term employee benefits are benefits whose full settlement is expected earlier than 12 months after the end of the reporting period during which the employees provide the services in question. These benefits include salaries, holiday pay, sick days, convalescence days and employers' deposits to National Insurance, and are recognized as an expense upon the provision of services. Liabilities in respect of cash bonuses or profit participation plans are recognized when the Company has a legal or constructive obligation to pay the aforementioned amount in respect of a service which was given by the employee in the past, and when the amount is reliably measurable.

(2) Post-employment benefits

The plans are generally financed by deposits to insurance companies, and are classified as defined contribution plans and as defined benefit plans.

The Company has defined contribution plans, pursuant to Section 14 of the Severance Pay Law, according to which the Company makes fixed payments without it having any legal or tacit obligation to pay the additional payments even if insufficient funds have accumulated in the fund in order to pay all the benefits to an employee that relate to the employee's service during the current and previous periods.

Deposits to a defined contribution plan in respect of severance pay or in respect of compensation are recorded as an expense at the time of the deposit to the plan, simultaneously with the receipt of the work services from the employee.

The Company also has a defined benefit plan for the payment of severance pay pursuant to the Severance Pay Law. According to the law, employees are entitled to receive compensation upon their dismissal or retirement. The liability pertains to a defined benefit plan in respect of post-employment benefits, is measured according to the actuarial value of the projected eligibility unit, which is calculated by a licensed actuary. The amounts are presented after discounting the forecasted cash flows using interest rates according to the yield, as of the reporting date, of high quality CPI-linked corporate bonds, whose maturity dates are similar to the period of the Company's liabilities.

The Company deposits funds in respect of its severance pay obligations for some of its employees on a regular basis, to pension funds and insurance companies (hereinafter: "The Plan Assets"). The plan assets are long-term assets held by the employee benefit fund and the appropriate insurance policies. The plan assets are not available for use by the Group's creditors, and cannot be paid directly to the Company.

The liability for employee benefits which is presented in the statement of financial position represents the present value of the defined benefit liability, after deducting the fair value of the plan assets. Re-measurements of the net liability are carried to other comprehensive income during the period of their materialization.

(3) Other long-term employee benefits

The Company's liability in respect of other long-term employee benefits, which do not refer to post-employment benefit plans, represents the amount of the future benefit which is owed to employees in respect of services provided during the current period and previous periods. The amount of these benefits is discounted to its present value. The discount rate is determined in the manner specified in section (2) above.

Note 2 - Significant Accounting Policies (Cont.)

K. Provisions

Provisions are made when the Company has a legal obligation or a constructive obligation due to an event which occurred in the past, for which economic resources are expected to be required, in an amount which is reliably estimable, in order to settle the liability.

The amount which is recognized as a provision reflects the best estimate of management regarding the amount which will be required to settle the liability on the balance sheet date, while taking into account the risks and uncertainty associated with the liability. The carrying value of the provision is the amount of the present value of the projected cash flows.

Changes in respect of components of the value of time which has passed are carried to the statement of income.

When it is the responsibility of a third party to bear the amount required to settle all or part the liability in the present, the Company recognizes an asset, in respect of the repayment, up to the amount of the provision which was recognized, only when it is virtually certain that the indemnification will be received, and when it is reliably estimable.

L. Lawsuits

The provision for claims is included when the Company has a legal or constructive obligation as a result of a past event, when it is more likely than not that the Company will be required to use economic resources to settle the obligation, and when it can be reliably estimated. When the impact of the value of time is significant, the provision is measured in accordance with its present value.

M. Revenue recognition

1. Revenue from contracts with customers is recognized in profit or loss when the control of the asset or of the service is transferred to the customer. Revenue is measured and recognized according to the fair value of the consideration which is expected to be received in accordance with the contract terms, after deducting amounts which were collected in favor of third parties (e.g., taxes). The revenue is recognized to the extent that the economic benefits are expected to flow to the Company, and the revenue and costs are reliably measurable.
   Revenue from the provision of services is recognized over time, over the period when the customer receives and consumes the benefits which are produced by the Company's performance. The revenue is recognized in accordance with the reporting periods when the service was provided.

   When determining the amount of revenue in contracts with customers, the Company evaluates whether it functions as a primary provider or as an agent. The Company is the primary provider when it controls the guaranteed good or service before they are transferred to the customer. In these cases, the Company recognizes revenue according to the gross amount of consideration.

   In cases where the Company functions as an agent, Company recognizes revenue in a net amount, after deducting the amounts which are owed to the primary provider.

2. Determination of the transaction price - The Company is required to determine the transaction price separately for each customer contract. When exercising this judgment, the Company estimates the effect of each variable consideration in the agreement, taking into account discounts, fines, changes, claims, the existence of significant financing components in the contract, and non-

Note 2 - Significant Accounting Policies (Cont.)

cash consideration. The Company includes amounts of variable consideration only if it is highly probable that a significant cancellation of the amount of recognized revenue will not occur.

N. Finance income and expenses

The Company's finance income and expenses mostly pertain to changes in the fair value of held-for-trading securities, which is determined according to the prices of the securities on the stock exchange.

Note 2 - Significant Accounting Policies (Cont.)

O. Income tax

Taxes on income in the statement of income include current and deferred taxes. Tax results for current or deferred taxes are carried to the statement of profit and loss unless they are attributed to items that are carried directly to equity or other comprehensive income. In these cases, the tax effect is also carried to the corresponding item under equity or other comprehensive income.

1. Current taxes
The current tax liability is determined using the tax rates and tax laws which have been enacted, or whose enactment has been effectively completed, by the reporting date, as well as necessary adjustments in respect of the tax liability for prior years.

2. Deferred taxes
Deferred taxes are calculated in respect of temporary differences between the amounts which are included in the financial statements and the amounts which have been taken into account for tax purposes, and in respect of carryforward losses and deductions, excluding a limited number of exceptions.

Deferred tax balances are calculated according to the tax rates which are expected to apply, and such taxes are carried to profit and loss or to equity based on the tax laws which have been enacted, or substantially enacted, until the balance sheet date. The sum of deferred taxes in the statement of profit and loss reflects the changes in the aforementioned balances in the report period.

A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which it will be possible to utilize the temporary differences. Deferred tax assets are evaluated on each balance sheet date, and if the attributable tax benefits are not expected to be realized, they are amortized.

Deferred tax assets and liabilities are presented in the balance sheet as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right that allows offsetting a current tax asset against a current tax liability.

P. Earnings per share

The Company calculates basic earnings per share in respect of profit or loss attributable to the Company's shareholders by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares which were outstanding during the reporting period.

Note 2 - Significant Accounting Policies (Cont.)

Q. Operating cycle period

The Company's operating cycle period is one year. Due to the foregoing, current assets and current liabilities include items which are designated and expected to be realized within the Company's ordinary operating cycle period.

R. Fair value

For the purpose of preparing the financial statements, the Company is required to determine the fair value of certain assets and liabilities. Additional information regarding the assumptions which were used in the determination of fair value is included in the following notes:

Note 4 regarding held-for-trading securities.
Note 12 regarding liabilities for employee benefits.
Note 18 regarding financial instruments.

In the determination of the fair value of an asset or liability, the Company uses observable market inputs, as much as possible.

The value measurement is divided into three levels of the fair value hierarchy, based on the inputs which were used in the recognition, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs that are observable, directly or indirectly, which are not included in Level 1 above.
Level 3: Inputs that are not based on observable market inputs.

S. Exchange rate and linkage base

(1) Balances in foreign currency, or linked thereto, are included in the financial statements according to the representative exchange rates which were published by the Bank of Israel and which were in effect as of the balance sheet date.
(2) Balances linked to the consumer price index are presented according to the last known index on the balance sheet date, or according to the index in lieu for the last month of the reporting period, in accordance with the terms of the transaction.

T. Dividend distribution

Dividend distributions to Company shareholders are recognized as a liability in the Company's financial statements for the period when the dividends were approved for distribution by the Company's Board of Directors.

Note 2 - Significant Accounting Policies (Cont.)

U. Initial adoption of new standards

1. <u>2015-2017 IFRS improvements project</u>

In December 2017, the IASB published the following amendments, as part of the 2015-2017 annual improvements cycle project. Listed below are the main amendments:

<u>Main points of the amendment</u>

IAS 12 - The amendment clarifies that a company is required to recognize the tax consequences which are due to a dividend payment under profit or loss, other comprehensive income or equity, according to the classification in the financial statements of that transaction or event which created the distributable profit.

IAS 23 - The amendment clarifies that credit which was taken directly for the creation of a qualifying asset will be classified, for the purpose of discounting borrowing costs for other qualifying assets, as general credit of the Company, when the qualifying asset for which that credit was taken is ready for use or sale, and the credit has not yet been repaid.
These amendments have been initially adopted in these financial statements for annual periods beginning on January 1, 2019. The standards had no significant impact on the Company's financial statements.

V. New accounting standards for the period prior to their adoption

1. Amendments to IFRS 9, IFRS 7 and IAS 39
In September 2019, the IASB published amendments to IFRS 9: Financial Instruments, to IFRS 7: Financial Instruments: Disclosures, and to IFRS 39: Financial Instruments: Recognition and Measurement (hereinafter: the "Amendment").

In light of regulatory changes taking place around the world, many countries are considering replacing the benchmark interest rates known as "IBOR's" (Interbank Offered Rates) (one of the common examples of such rates being the LIBOR, which is determined by banks in London) with alternative RFRs (Risk Free Interest Rates), which are based, to a larger extent, on the particular details of each specific transaction. This interest rate reform is causing uncertainty on all matters associated with the dates and amounts which are relevant to future cash flows associated with both hedging instruments and hedged items, which are based on the current IBOR's.

In accordance with the provisions of current accounting standards, according to IFRS 9 and IAS 39, for entities which are engaged in hedging transactions, as stated above, the current uncertainty regarding the interest rate reform may affect both the entity's ability to continue meeting the hedge effectiveness requirements for current transactions, and to meet the hedge requirements for future transactions. In order to resolve the current uncertainty in respect of the interest rate reform, the IASB published the amendment, in order to provide temporary expedients for entities which apply IBOR-based hedge accounting. This amendment is the first stage of a project which will include, in the future, also additional amendments in this regard.

The amendment includes expedients regarding the implementation of effectiveness tests and hedge accounting during the period of transition from IBOR's to RFR's (risk-free interest rates). These expedients assume that the benchmark interest rate which is used as the basis for hedging will not change, despite the expected interest rate reform. These expedients will be in effect for an unlimited period, unless one of the events specified in the amendment has occurred. The amendment also requires entities to provide specific disclosure regarding their use of the expedients.

Note 2 - Significant Accounting Policies (Cont.)

The amendment will be adopted retrospectively for annual periods beginning on January 1, 2020 or thereafter. Early adoption is permitted.

The Company estimates that the amendment will have no impact on the Company's financial statements, since it does not engage in IBOR-based hedging transactions in material amounts.

2. **Amendment to IAS 1 - Presentation of Financial Statements: Classification of liabilities as current or non-current**

The amendment replaces certain requirements regarding classification of liabilities as current or non-current. For example, according to the amendment, a liability will be classified as current when the entity is entitled to defer the payment for a minimum period of 12 months after the reporting period, and when it exists as of the end of the reporting period. A right exists as of the reporting date only if the entity meets the conditions for deferral of the payment as of that date. The amendment also clarifies that the right to convert the liability will affect its classification as current or non-current, unless the conversion component is equity-based.

The amendment will enter into effect for reporting periods beginning on January 1, 2022. Early adoption is permitted. The amendment will be adopted retrospectively, including the adjustment of comparative figures.

The Company has not yet begun evaluating the implications of the adoption of the standard on the financial statements.

Note 3 - Cash and Deposits in Banks

	As of December 31	
	2020	**2019**
Composition:	NIS in thousands	
In Israeli currency - interest-bearing deposits	48,473	32,687
In foreign currency	870	-
	49,343	32,687

Note 4 - Held-for-Trading Securities

	As of December 31	
	2020	**2019**
	NIS in thousands	
Financial assets classified as held-for-trading at fair value:		
Government bonds and government loans	84,243	78,751
Israeli and international stocks	27,263	19,727
	111,506	98,478

Note 5 - Trade Receivables

	As of December 31	
	2020	2019
	NIS in thousands	
Credit card companies	16,672	17,815
Banks	186	282
Other debts	1,116	1,064
Total trade receivables	17,974	19,161

Note 6 - Other Accounts Receivable

	As of December 31	
	2020	2019
	NIS in thousands	
Other accounts receivable:		
Prepaid expenses	2,049	1,700
Related company in respect of reimbursement of expenses	2,345	2,306
Vehicle deposits	64	70
Other	1	28
Total other accounts receivable	4,459	4,104

(*) Reclassified and restated in Note 3.

Note 7 - Property, Plant and Equipment, Net

The composition of property, plant and equipment by main groups, and the movement therein during the years 2020 and 2019, were as follows:

	Computers and electronic equipment	Backup facility	Leasehold improvement, furniture and equipment	Total
	NIS in thousands			
2020:				
Cost				
Balance as of January 1, 2020	17,902	2,848	10,045	30,795
Acquisitions this year	2,644	-	153	2,797
Balance as of December 31, 2020	20,546	2,848	10,198	33,592
Accumulated depreciation				
Balance as of January 1, 2020	8,514	2,631	1,107	12,252
Depreciation during the year	1,804	28	548	2,380
Balance as of December 31, 2020	10,318	2,659	1,655	14,632
Depreciated cost as of December 31, 2020	10,228	189	8,543	18,960
2019:				
Cost				
Balance as of January 1, 2019	11,197	2,848	9,914	23,959
Acquisitions this year	6,705	-	131	6,836
Balance as of December 31, 2019	17,902	2,848	10,045	30,795
Accumulated depreciation				
Balance as of January 1, 2019	6,415	2,603	567	9,585
Depreciation during the year	2,099	28	540	2,667
Balance as of December 31, 2019	8,514	2,631	1,107	12,252
Depreciated cost as of December 31, 2019	9,388	217	8,938	18,543

Some of the foregoing property, plant and equipment are jointly owned and held by the Company together with the related company Masav (hereinafter: the "**Joint Assets**"). The foregoing amounts are according to the Company's share in the joint assets.

Note 8 - Intangible Assets, Net

The composition of intangible assets by main groups, and the movement therein during the years 2020 and 2019, is as follows:

	Software and licenses	Projects under construction	Total
2020:			
Cost			
Balance as of January 1, 2020	13,448	7,371	20,819
Acquisitions this year	766	673	1,439
Balance as of December 31, 2020	14,214	8,044	22,258
Accumulated depreciation			
Balance as of January 1, 2020	11,596	5,304	16,900
Depreciation during the year	940	1,483	2,423
Balance as of December 31, 2020	12,536	6,787	19,323
Depreciated cost as of December 31, 2020	1,678	1,257	2,935

	Software and licenses	Projects under construction	Total
2019:			
Cost			
Balance as of January 1, 2019	13,069	7,371	20,440
Acquisitions this year	379	-	379
Balance as of December 31, 2019	13,448	7,371	20,819
Accumulated depreciation			
Balance as of January 1, 2019	10,662	3,822	14,484
Depreciation during the year	934	1,482	2,416
Balance as of December 31, 2019	11,596	5,304	16,900
Depreciated cost as of December 31, 2019	1,852	2,067	3,919

Some of the foregoing assets are jointly owned and held by the Company together with the related company Masav (hereinafter: the "**Joint Assets**"). The foregoing amounts are in accordance with the Company's interest in the joint assets.

Note 9 - Leases

1. Lease transactions in which the Company is a lessee - general

A. The Company adopted IFRS 16 on January 1, 2019. The Company has lease agreements including for an office building and vehicles that are used to perform its operating activities.

1. In November 2015, the Company signed an agreement with Masav, jointly and severally (with each company assuming 50% of rental costs), for leasing an office site for a ten-year period, with an option to extend by two additional periods of five years each, or ten years in total. The Company believes that exercising the option is highly likely.
2. The Company has vehicle lease agreements, mostly for three-year periods.

The Company has vehicle lease agreements for a period shorter than 12 months and lease agreements for office equipment of low monetary value. With respect to these leases, the Company applies the expedient in the standard, and recognizes the lease costs as an expense on a straight line basis over the lease period.

2. Right-of-use assets

	The Company's offices	Vehicles	Total
	NIS in thousands		
Cost			
Balance as of January 1, 2020	9,499	1,074	10,573
Additions during the year:			
Additions in respect of new leases during the period	-	695	695
Disposals from right-of-use assets in respect of leases discontinued in the period	-	(283)	(283)
Disposals from right-of-use assets in respect of linkage to the dollar	(54)	(4)	(58)
Balance as of December 31, 2020	9,445	1,482	10,927
Accumulated depreciation			
Balance as of January 1, 2020	576	430	1,006
Additions during the year:			
Depreciation and amortization	573	521	1,094
Disposals from right-of-use assets	-	(283)	(283)
Balance as of December 31, 2020	1,149	668	1,817
Depreciated cost as of December 31, 2020	8,296	814	9,110
Cost			
Balance as of January 1, 2019	9,471	882	10,353
Additions during the year:			
Additions in respect of new leases during the period	-	190	190
Updates regarding CPI linkage	28	2	30
Balance as of December 31, 2019	9,499	1,074	10,573
Accumulated depreciation			

Balance as of January 1, 2019	-	-	-
Additions during the year:			
Depreciation and amortization	576	430	1,006
Balance as of December 31, 2019	576	430	1,006
Depreciated cost as of December 31, 2019	8,923	644	9,567

Note 9 - Leases (Cont.)

3. **Lease liabilities - analysis of repayment dates**

	Principal payments	Interest payments	Total forecasted cash flow
	NIS in thousands		
First year - current maturities	819	313	1,132
Second year	711	293	1,004
Third year	569	274	843
Fourth year	499	256	755
Fifth year	527	238	765
Sixth year and thereafter	6,175	1,156	7,331
Non-current liabilities	8,481	2,217	10,698
Total lease liabilities	9,300	2,530	11,830

4. **Amounts recognized in the statement of income**

	For the year ended December 31, 2020
	NIS in thousands
Interest expenses in respect of lease liability	331
Depreciation expenses	1,094
Total expenses in respect of lease	1,425

5. **Amounts recognized in the statement of cash flows**

Cash flows used in lease transactions – cash outflows for financing activities – NIS 904 thousand
Interest payments – cash outflows for operating activities – NIS 331 thousand
Total cash outflows for leases – NIS 1,235 thousand

Note 10 - Taxes on Income

A. Composition:

	For the year ended December 31		
	2020	2019	2018
	NIS in thousands		
Current taxes in respect of the accounting year	8,400	7,035	5,550
Current taxes in respect of prior years	-	313	(204)
Total current taxes	8,400	7,348	5,346
Add (less):			
Deferred taxes in respect of the reported year (see section B below)	(238)	1,405	(1,079)
Total taxes on income	8,162	8,753	4,267

(*) Classified and restated, see Note 3.

B. Deferred tax assets and liabilities:

Deferred tax assets and liabilities recognized –

Deferred taxes are calculated according to the tax rate expected to apply on reversal date, as specified in Note 6E above.
Deferred tax assets and liabilities refer to the following items:

	In respect of employee benefits - carried to the statement of income	In respect of employee benefits - to other comprehensive income	In respect of property, plant and equipment	In respect of held-for-trading securities	Total
	NIS in thousands				
Balance at January 1, 2019	892	778	(94)	442	2,018
Movement in 2019:					
Carried to the statement of income	(294)	-	(55)	(1,056)	(1,405)
Changes carried to other comprehensive income	-	470	-	-	470
Balance as of December 31, 2019	598	1,248	(149)	(614)	1,083
Change in 2020:					
Carried to the statement of income	158	-	(59)	139	238
Changes carried to other comprehensive income	-	(69)	-	-	(69)
Balance as of December 31, 2020	756	1,179	(208)	(475)	1,252

Note 10 - Taxes on Income (Cont.)

C. Theoretical tax

Reconciliation between the theoretical tax that would have applied had the profit been taxable according to the statutory tax rate applicable to the Company in Israel, and the provision for taxes on income, as recognized in the statement of income:

	As of December 31		
	2020	2019	2018
	NIS in thousands		
Profit before taxes on income, including from discontinued operations	35,282	38,117	18,794
Statutory tax rate	23.0%	23.0%	23.0%
Tax liability based on the statutory tax rate	8,115	8,767	4,323
Decrease (increase) of the tax liability in respect of:			
Taxes for previous years	-	313	(204)
Non-deductible expenses	23	80	45
Others, net	24	(407)	103
Provision for taxes on income	8,162	8,753	4,267

(*) Reclassified and restated

D. Changes in tax legislation

The relevant corporate tax rate for the Company in 2018-2020 is 23%.

Current taxes for the reporting periods were calculated in accordance with the tax rates presented above.

Deferred tax balances as of December 31, 2020 and 2019 were calculated using the tax rate expected to apply on the date of reversal.

E. Final Assessments

In accordance with section 145 of the Income Tax Ordinance, the Company's returns up to and including 2015 are considered final tax assessments, subject to the terms specified in the Income Tax Ordinance.

Note 11 - Other Accounts Payable

	As of December 31	
	2020	2019
	NIS in thousands	
Expenses payable in respect of payroll and related expenses [(1)]	9,947	7,823
Expenses payable and miscellaneous	5,908	3,268
Government institutions	1,268	775
Total other accounts payable	17,123	11,866

(1) See Note 12.

Note 12 -Assets and Liabilities for Employee Benefits

A. Composition

Presented below are post-employment benefit obligations:

	As of December 31	
	2020	2019
	NIS in thousands	
Excess of post-employment obligations, net – presented in current liabilities	(520)	-
Excess of post-employment obligations, net – presented in non-current liabilities	(1,176)	(1,766)

Presented below is the composition of other employee benefit obligations:

	As of December 31	
	2020	2019
	NIS in thousands	
Presented under current liabilities:		
Liability for leave pay	4,526	3,617
Institutions, employees and other payroll-related liabilities	4,531	4,135
Excess of post-employment obligation, net	520	
Obligation to adjustment benefit	300	-
Liability for sales bonus	70	70
Total current obligation	9,947	7,822
Presented under non-current liabilities:		
Liability for sales bonus	-	936
Liability for jubilee benefits	1,816	1,633
The Company's total employee benefit obligation	1,816	2,569

(1) As noted below, employees who complete 20, 25 and 30 years of work with the Company are entitled to monetary benefits that are equivalent to several monthly salaries, and special leave time.

B. Post-employment benefits

Labor laws and the Severance Pay Law in Israel obligate the Company to pay severance pay to an employee upon dismissal or retirement, or to make regular deposits to defined contribution plans, in accordance with section 14 of the Severance Pay Law, as described below. The Company's liabilities of this kind are accounted for as a post-employment benefit. The Group's liability in respect of employee benefits is calculated according to the employment agreement in effect, and is based on the employee's salary and years of employment that entitle the employee to severance pay.

Post-employment benefits plans are generally financed through contributions to plans that are classified as either defined benefit plans or defined contribution plans, as specified below.

(1) Defined contribution plans
Some of the severance payments are subject to the terms of section 14 of the Severance Pay Law, 5723-1963, which prescribes that the Company's routine contributions to pension funds and/or to insurance policies exempt it from any additional obligation towards the employees for whom the aforementioned amounts were contributed. These contributions, as well as those made towards pension, are defined contribution plans. In 2020, the Company transferred a total of NIS 968 thousand to defined contribution plans.

(2) Defined benefit plans
The share of severance pay that is not covered by contributions to defined contribution plans, as stated above, is accounted for by the Company as a defined benefit plan. Under those plans, the obligation for employee benefits is recognized, and for which the Company deposits amounts in appropriate pension funds and insurance policies. The Company also made in the past deposits to a central fund for severance pay.

C. Post-employment benefit plan for severance pay- defined benefit plan

C.1 Plan assets and liabilities, net

	As of December 31	
	2020	2019
	NIS in thousands	
Total liability (C,2)	(22,797)	(21,328)
Fair value of plan assets (C,3)	21,101	19,562
Excess of liabilities over assets	(1,696)	(1,766)

C.2 Total liability

	As of December 31	
	2020	2019
	NIS in thousands	
Liability at beginning of year	21,328	17,490
Current service cost	1,081	1,029
Interest cost, net	485	554
Benefits paid	(177)	-
Actuarial loss	80	2,255
Defined benefit liability at end of year	22,797	21,328

C.3 Fair value of plan assets

	As of December 31	
	2020	2019
	NIS in thousands	
Fair value of plan assets at beginning of year	19,562	17,944
Interest on plan assets	456	583
The Company's contributions to the plan	968	895
Benefits paid	(177)	-
Transfer of profit to provident	(40)	(126)
Remeasurements	332	266
Fair value of plan assets at end of year	21,101	19,562

C.4 Expenses in respect of employee rights recognized in the statement of income

	As of December 31	
	2020	2019
	NIS in thousands	
Current service cost	1,081	1,029
Interest, net	29	17
Transfer of profit to provident	40	126
Total expenses in respect of employee benefits in the statement of income	1,150	1,172

C.5 Amounts recognized in other comprehensive income

	As of December 31	
	2020	2019
	NIS in thousands	
Actuarial gain (loss)	252	(1,989)

C.6 Actuarial assumptions

Main actuarial assumptions as of the reporting date

	As of December 31		
	2020	2019	2018
	%		
Discount rate as of December 31	2.27	2.35	3.11
Projected rate of return on plan assets as of January 1	2.25	3.12	3.16
Anticipated rate of salary increases	3.00	3.00	2.50

D. The Company's liability for adaptation pay – defined benefit plans

	As of December 31	
	2020	2019
	NIS in thousands	
Present value of the liability at beginning of year	936	837
Interest expenses	13	46
Past service cost	(600)	-
Actuarial gain (loss)	(49)	53
Present value of the liability at end of year	300	936
Nominal return on plan assets	N.A	3.17%

(*) The liability to adjustment benefit is for one employee who leaves the Company in 2021. The obligation is not discounted. For more information, see note 19 below.

E. The Company's executive compensation policy

Until June 2019, the Company's compensation policy for its directors and officers, which the Company's Board of Directors approved in September 2014, complied with Proper Conduct of Banking Business Directive 301A, regarding the compensation policy of a corporation (hereinafter: "**Directive 301A**"). On February 16, 2017, the Company's Board of Directors approved an update to this compensation policy (hereinafter: the "**Previous Compensation Policy**").

The Company's executive compensation policy was approved on November 11, 2018. In accordance with Regulation 1 of the Companies Regulations (Expedients Regarding Obligation to Establish Compensation Policy, 5773-2013, the compensation policy that was approved prior to the publication of the Company's prospectus would remain in effect for 5 years after the initial listing date of the Company's shares on the stock exchange, i.e., beginning in June 2019.

The compensation policy, as approved, combined the provisions set forth in Directive 301A, which, following the cancellation of the Company's license as a joint service company, no longer applies to the Company, and the cross-sectional principles that the Company's Board of Directors considered appropriate for adoption on all matters pertaining to the compensation of the Company's employees. Within this framework, emphasis was placed on the Company's main operating segments, the Company's size and scope of activity, and the fact that a relatively limited number of employees of the Company, who, according to the Board of Directors' position, are an important and major resource of the Company. As part of the principles specified in the compensation policy, it was determined, inter alia, that the Company's employees who have been requested, as part of their work in the Company, to fulfill additional responsibilities and/or to provide services to Masav, will do so without entitlement to additional consideration, and subject to the netting mechanism as was determined between the Company and Masav in accordance with the mutual charging agreement signed between them, as specified in Note 19B2 below.

The compensation policy determines the maximum possible ratio between variable compensation and fixed compensation for each of the Company's employees, such that the variable compensation will not exceed, in any case, 100% of the fixed compensation of each of the employees. Insofar as the officer's compensation package includes an equity compensation component which vests over several periods, the value of the equity compensation taken into account for the purpose of determining the foregoing ratio is the value of the benefit on grant date, divided by the total number of years in the vesting period. The compensation policy captures the fixed compensation component (including fixed salary, statutory benefits, fringe benefits and other benefits), the employees' retirement terms, as well as the framework and conditions used for the provision of an annual bonus in each of the years of the policy, as specified below.

In accordance with, and subject to, the terms of the compensation policy, upon the termination of employment (whether at the employee's initiative or at the Company's initiative, excluding cases in which the employee is not entitled to severance pay in accordance with the law), the employee is entitled to severance pay at a rate that may not exceed 100% (except for the Company's CEO) of the last monthly salary for each year of employment (including the employee's severance pay fund), plus the monies and rights in the employee's provident funds.

The termination of employer-employee relationships are subject to advance notice, which must be given one to three months in advance (and for the Company's CEO, up to six months in advance) (depending on the officer's position and seniority, such that, during the advance notice period, the officer is entitled to a salary and to all other fringe benefits, and the Company may forego the officer's actual work during that period, provided that rules are defined regarding their obligation to actually work in the Company during that period.

<u>Eligibility of all Company employees for annual bonuses</u>
Each year, following the approval of the financial statements for the year just ended, a discussion is held by the Remuneration Committee, and later by the Board of Directors, in which a resolution is passed regarding whether to allocate, in that year, a budget for the distribution of annual bonuses to officers, while taking into consideration the Company's performance and business results, the economic and regulatory environment, and other considerations, including conditions that were determined in the compensation policy, including the minimum conditions specified below. In case a decision is reached in that discussion to grant an annual bonus to officers, the size of the annual budget for bonus to officers is determined after holding a discussion that includes taking into account the aforementioned considerations. In case an annual bonus budget is allocated in a given year, the amount of the annual bonus to each of the officers is determined in accordance with, and subject to, the provisions below, provided that the entire sum of annual bonus amounts for all officers does not exceed the bonus budget that was

determined, as stated above.

Minimum conditions for annual bonuses
Insofar as a decision is reached to distribute an annual bonus, as stated above, the granting of such annual bonus in respect of a certain year to any of the Company's officers is subject to the Company's cumulative fulfillment of all of the following minimum conditions:

- The Company achieved at least 70% of its annual profit target from operating activities (not including capital gains), as determined by the competent organs;
- The Company's other employees (who are not officers) are entitled to an annual bonus in respect of that year;
- During the relevant year, the Company met its operational targets, including regarding the availability of the critical services provided by the Company, a matter specified by the annual work plan as approved by the Board of Directors.

For this purpose, "critical services" means credit card transaction authorization services and real time ATM withdrawal services, and any other services that have been designated by the Board of Directors as critical services at the time.

The Remuneration Committee and Board of Directors, by recommendation of the Company's CEO, are entitled to determine the payment of an annual bonus to officers reporting to the CEO, which can be determined (in whole or in part) on a discretionary basis, instead of, or in addition to, a target-based bonus (based on non-discretionary measurable criteria) to officers, provided that: the total bonus (whether entirely discretionary, or a combination of discretionary and target-based) to each of the officers may not exceed a cap of 4 monthly salaries, or, for officers in the sales department, a cap of 6 salaries (hereinafter: the "**Bonus Cap**").

Target-based bonus

The Remuneration Committee and Board of Directors are entitled to determine that the bonus to officers reporting to the CEO will be target-based. In that case, the bonus plan for officers reporting to the CEO may include one or more of the following components, by the CEO's recommendation, as determined by the Remuneration Committee in respect of each officer until the end of the first quarter of each year, in respect of that year. The Remuneration Committee determines the weight of each selected component, the number of targets to be included in each component, and the weight of each target.

- **Company targets**: Targets pertaining to the Company's performance during that year. The Company's Remuneration Committee and Board of Directors may choose 3 to 7 measurable targets from the following list: EBITDA from operating activities (excluding proprietary investing) - mandatory target, proprietary investing activity, revenue, achievement of the business development plan, availability, operating expenses, achievement of work plans, compliance, regulation and corporate governance, and labor relations.
- **Personal targets**: Targets tailored to the relevant officer's position, where the Company would like them to make progress and achieve during that year.
- **Discretionary targets**: A component based on a qualitative assessment of the officer's performance by the CEO. The assessment is determined by the Remuneration Committee and the Board of Directors, while taking into account the CEO's recommendation (except for the internal auditor, whose performance is assessed by the Audit Committee and the Board of Directors). The considerations taken into account in determining the assessment score includes results; initiative; openness to change; achievement of the targets in the work plan; dedication and effort; treatment of colleagues; teamwork and collaboration; leadership and management ability; understanding of and compliance with laws, regulations and Company policies; audit reports for that year on issues under the officer's responsibility, as well as the officer's handling of the correction of any deficiencies identified in audit reports; outstanding performance; and advancement of the Company's objectives.

It is emphasized that insofar as meeting any of the targets in the work plan is contingent upon a condition that is not under the Company's control, and that condition has not been fulfilled, that target is not taken into account in the calculation of the score. In that case, the weight of the other targets is increased proportionately, according to the weight of the target that was not taken into account, as stated above.

Notwithstanding the foregoing, the Company's Remuneration Committee and Board of Directors are entitled to determine, in respect of officers reporting to the CEO, that part or all of the bonus is to be granted based on non-measurable qualitative criteria, and to determine a different bonus than the foregoing structure, subject to the annual bonus cap, as stated above.

The selection of the bonus structure, targets and weights of the bonus are determined by the Company's competent organs, as specified above, each year in advance, until the end of the first quarter, and are created specifically and separately for each of the officers reporting to the CEO. In respect of officers who are also officers of Masav, each of the companies may determine the variable compensation in accordance with the rate of that officer's tenure in that company, in accordance with the mutual charging agreement between the Company and Masav.

The Company's Remuneration Committee and Board of Directors may determine the way in which the formula for performance measurement is defined, and is entitled to "neutralize", to exclude from the performance assessment for the purpose of the bonus any extraordinary events that are unrelated to the Company's operating activities so that they do not affect the annual bonus (including in respect of the CEO's bonus), provided that their effect had not be taken into account in the Company's budget, insofar as such events have occurred.

In exceptional cases (and in respect of officers other than the CEO - in accordance with the CEO's recommendation), the Board of Directors is entitled to approve the granting of an extraordinary bonus in respect of a certain year, to any of the Company's key employees, even though the Company does not meet the minimum conditions for the year in question, subject to the following conditions, and to the presentation of detailed explanations for the resolution: (1) The extraordinary bonus is given in respect of an extraordinary event, such as a one-time project, a significant restructuring, an extraordinary transaction in terms of scope and nature, and/or outstanding excellence; (2) The maximum extraordinary bonus as may be given to an officer of the Company in respect of a certain year may not exceed three (3) times that officer's average monthly salary.

Insofar as a decision has been reached to distribute a bonus, as stated above, the Board of Directors is entitled, in its discretion, for any reason whatsoever (including due to ethical failures and failures to comply with regulatory directives or with the Company's policies) to reduce the amounts of the bonuses in respect of a certain year to all or some of the Company's officers. The Board of Directors is entitled to determine, in respect of a certain year, that no bonuses are to be granted by the Company, even if it met the aforementioned minimum conditions in that year.

<u>CEO bonus</u>
The structure of the CEO's bonus includes 2 parts: (1) A target-based bonus - The component representing the Company's targets, as stated above, where the selection of the targets and weights pertaining to the bonus are determined by the Remuneration Committee and the Board of Directors each year in advance, by the end of the first quarter; (2) A discretionary component. The bonus cap for the target-based component is limited to 5 salaries; the bonus cap for the discretionary component may not exceed three salaries.

<u>Special bonus</u>
In addition to that discussion in this section regarding annual bonuses, the Company's Remuneration Committee and Board of Directors are entitled to grant, to any of the officers, a special bonus that may not exceed 3 salaries. The special bonus can be granted in special, extraordinary or exceptional cases, in recognition of significant and special efforts made by that officer of the Company in the execution of a transaction and/or another activity that was not predicted or included in the Company's work plan, and which can create value for the Company and/or improve its business position, such as a merger, a sale of the Company or of a significant part of its assets, a company acquisition, entry into a new operating segment, significant cost savings, performance of a significant project or activity that had not been included in the work plan, investment of extraordinary and exceptional effort in the advancement and execution of a project, etc.

<u>Signing bonus to new officers</u>
A new officer of the Company may be entitled to a one-time signing bonus, limited to the first year of employment, in the amount of up to 4 salaries, if the circumstances of the officer's appointment by the Company, including the officer's employment terms in their previous position, justify such payment of one-time signing bonus.

Refund of variable compensation

An officer is required to refund the Company bonus amounts paid in accordance with the compensation policy, if paid based on figures that were found to be incorrect and restated in the Company's financial statements during a period of up to three years after receipt of the bonus, in a manner to be determined by the Board of Directors.

Any variable compensation to an officer of the Company will be granted and paid to them on condition that it will be repayable by the officer to the Company upon the fulfillment of one of the following criteria: (1) the officer was involved in conduct which caused extraordinary damage to the Company, including illegal activity, breach of fiduciary duty, deliberate breach or grossly negligent avoidance of the Company's policy, rules and procedures; (2) Fraud or deliberate inappropriate conduct by the officer, which resulted in a situation where data presented in the Company's financial statements were found to be incorrect, and therefore restated.

Collective agreements

On November 19, 2017, the first partial collective agreement was signed between the Company and Masav, on the one hand, and the Histadrut and the union of the Company's and Masav's employees, on the other hand, regarding the relocation of the Company's offices and Masav's offices to a new site, as stated above (hereinafter: the "**Transition Agreement**"). The agreement determines that any employee who was employed in the Company as of the signing date of the agreement, and as of the date of relocation to the new site, would continue being employed by the Company, and would not be dismissed due to the relocation. In accordance with the agreement, inter alia, the Company's eligible employees would receive, in accordance with the criteria specified in the agreement, a two-part bonus, with the first part paid in December 2017, and the second part paid after the signing of the full collective agreement.

On November 15, 2018, a special collective agreement was signed between the Company and Masav, on the one hand, and the Histadrut and the union of the Company's and Masav's employees (hereinafter: the "**Collective Agreement**"). The collective agreement was signed for the period from January 1, 2018 to December 31, 2022, and will be renewed automatically every two years, subject to each party's right to terminate the agreement, by giving a notice 90 days in advance. The agreement applies to all employees of the Company, excluding the CEO, Executive VP and VP, managers reporting to the CEO, and other employees from Finance, Human Resources, CEO's office staff and Information Security functions. The agreement includes an undertaking to pay a minimum monthly salary of NIS 6,000, and an undertaking to provide an annual salary raise in respect of 2018-2022 (beginning in July 2018) to the Company's employees, at a total annual rate of 3% of base salary (plus fixed overtime if any is paid) (3.5% in 2018), or a raise at a lower rate, in case the Company does not meet the targets set in the agreement for all employees who are subject to the collective agreement, and who have completed 12 months of employment as of the payment date of the salary raise. Individual salaries will be raised according to a mechanism established in the collective agreement - i.e. 1% per employee, and the remainder is divided up between employees at the Company's discretion, with a maximum raise of 10% per year per employee.

Under the agreement, various additional benefits were granted to employees in various social fields, and the Company decided to grant those benefits also to employees who were excluded from the agreement.

The agreement also includes, inter alia, provisions regarding the hiring employees to work for the Company, the staffing of positions and employee transfers, work hours, employment policies, holidays, work environment and employment termination.

Concurrently with signing the collective agreement, a special collective agreement was entered into between the Company, on the one hand, and the Histadrut and the union, on the other hand, pertaining to the sale of the Company's shares by the banks. In accordance with the provisions of this agreement, the employees received, in accordance as specified by the agreement, a sale bonus of approximately NIS 1.2 million (between 50% of monthly salary and three salaries, depending on seniority, and up to a cap that was specified in the agreement). The sale bonus was paid as part of the salary for June 2019.

The agreement provides that any employee of the Company as of signing date of the agreement who remains employed by the Company on sale closing, would remain an employee of the Company, and will not be dismissed due to the sale.

In accordance with the resolution of the Company's Remuneration Committee and Board of Directors, officers of the Company, and employees excluded from the collective agreement, also received a sale bonus, under identical conditions to those specified in the collective agreement. In case the officer's employment is terminated for reasons other than retirement or dismissal within a period that is shorter than two years after the date of receiving the sale bonus, the officer will repay, upon termination of employment, an amount equal to 40% of the bonus. The total sale bonus that was paid to employees under the collective agreement, and to officers and employees excluded from the collective agreement, was approximately NIS 2 million.

On November 19, 2020, an addendum to the collective agreement was signed, which amended Appendix A to the agreement, including a list of roles under personal contracts who are excluded from the scope of the collective agreement.

F. Other employee benefits

(1) Jubilee benefit

In accordance with the employment agreement, an employee who completed 20 years of work is entitled to a bonus equivalent to one monthly salary. After 25 years of work, they are entitled to a bonus equivalent to three monthly salaries, and after 30 years of work, they are entitled to a bonus equivalent to six salaries.

- The liability is accumulated over the period for benefit eligibility.
- For the purpose of calculating the liability, discount rates and actuarial assumptions are taken into account.
- All components of benefit cost for the period, including actuarial profit and loss, are immediately carried to the statement of income.

(2) Paid leave

- Vacation leave - The Company accrues the liability for vacation pay throughout a predetermined period. For the purpose of calculating the liability for vacation pay, discount rates and actuarial assumptions are not used. All costs of the benefit for the period are immediately recognized in the statement of income.
- Sick leave - The Company does not accrue liabilities in respect of sick leave days to be used during the current service period.

Note 13 - Equity

A. The Company's share capital comprises the following:

	As of December 31, 2020		As of December 31, 2019	
	Number of shares		Number of shares	
	Registered	Issued and paid-up	Registered	Issued and paid-up
Ordinary shares of NIS 0.0001 par value each (2018: Ordinary shares of NIS 1 par value each)	**1,000,000,000,000**	**40,000,000**	1,000,000,000,000	40,000,000

In April 2019, the general meeting of the Company's shareholders resolved to split the Company's issued and paid-up registered capital, such that each share with a par value NIS 1 is split into 10,000 shares with a par value of NIS 0.0001 each.

Rights associated with ordinary shares

The ordinary shares confer upon holders, among others, the following rights proportionally to their stakes in the issued and paid-up share capital:

- To participate in the Company's profits, the distribution thereof through dividends, benefits and rights, will be decided, if at all, upon according to the method set forth in the Company's articles of association on a proportionate basis, according to the amounts which have been settled, or credited as settled, on the par value of the shares which are held by the shareholders, without taking into account the premium paid for them. This right is subject to the conditions of the exemption and to the approval of the Bank of Israel, and to the provisions of the Company's articles of association regarding dividends and reserves;
- In case of the Company's liquidation, the Company's surplus assets will belong to the shareholders and will be divided among them proportionally according to the amounts which have been settled, or credited as settled, on the par value of those shares.
- The right to be invited, to participate and to vote in the Company's general meetings.

The Company's shares are listed on the Tel Aviv Stock Exchange.

B. Restrictions on the distribution of earnings

Through July 23, 2020 – the date of transferring rights of the Company to the EMV Ashrait protocol, as described in this section – profit distributions were subject to restrictions by virtue of a resolution dated September 24, 2017 by the Acting Competition Commissioner, pursuant to section 14 the Antitrust Law, 5748-1988, regarding the provision of a conditional exemption from the obligation to receive court approval for a restrictive arrangement pertaining to joint ownership of the Company (hereinafter: the "Exemption" or the "Exemption Decision"), as described below.

In the exemption decision it was determined, inter alia, that the Company will not distribute, directly or indirectly, dividends to its shareholders before one of the following dates/events, whichever is earlier:
(1) Until December 31, 2019;
(2) Until the date when the Company ceases providing any services to an association to which the rights to the Ashrait EMV.

Even after the foregoing dates, in order to distribute dividends, the Company must meet the following conditions:

- The Company has submitted to the Registrar of Associations a request to register the Association, and has transferred to it its rights to the Ashrait EMV protocol.

- As of the date of the dividend distribution, no shareholder of the Company holds more than 10% of its control instruments.

As of the reporting date, the above conditions are satisfied.

On July 23, 2020, the Company transferred all its rights to the protocol to The Association for Management of EMV Protocol Terminals in Israel for no consideration. Following the transfer of the protocol, the restriction on distribution under that section was lifted.

On November 11, 2018, the Company's Board of Directors adopted an earnings distribution policy, subject to the Company becoming public, according to which the Company will distribute to its shareholders annual dividends at a rate of up to 50% of the net annual profit during the preceding year, as reflected in the Company's audited annual financial statements, after neutralizing non-recurring profits from non-operating activities, provided that the Company has distributable earnings, in accordance with the provisions of the Companies Law and subject to the provisions of any applicable law, including the Commissioner's directives, as specified above, and the provisions of the Company's articles of association. Additionally, dividend distributions by the Company are also subject to the Supervisor's approval, in accordance with a clarification received on the matter from the Banking Supervision Department, which, to the best of the Company's knowledge, may take into account, among other considerations, also the current uncertainty caused by the coronavirus crisis.

C. Distributed dividends

In accordance with the terms of the exemption dated September 24, 2017, as specified in section A above, on November 20, 2017, the Company's Board of Directors approved a dividend distribution of NIS 175 million. On February 15, 2018, the Company's Board of Directors, according to its composition at the time, approved the aforementioned dividend distribution of NIS 175 million. On March 21, 2018, the Company received approval from the Supervisor of Banks for the aforementioned dividend distribution. The dividend was distributed to shareholders on March 28, 2018.

On November 29, 2020, the Company's Board of Directors resolved to distribute a dividend of NIS 11,700 (approx. NIS 0.2925 per share). According to clarifications received on this matter from the banking regulator, and in light of their position on that matter, the Company approached the regulator to obtain approval for the distribution. On February 2, 2021, a letter was received from the regulators, stating that their position was that a distribution or non-distribution of dividends is the authority of a company's Board of Directors based on the dividend policy set by the Company, and according to the relevant provisions in the law. Additionally, the letter indicated that the Company's Board of Directors was asked to hold an additional discussion regarding the dividend distributions and review more aspects, including potential impact of the Competition Authority requirements regarding the separation between the Company and Masav, as discussed in note 17 below. On February 28, 2021, the Company's Board of Directors held an additional discussion on that matter approving its November 29, 2020 resolution on the dividend distribution.

On March 17, 2021, the dividend was distributed to shareholders.

D. Perpetual loan

For details regarding a perpetual loan, see Note 14.

Note 14 - Perpetual Loan

In 1980, Mizrahi Tefahot Bank Ltd. (hereinafter: "**Mizrahi Bank**") transferred all of its holdings in the Company's shares it held, which represented, at that time, 3.2% of the Company's capital, to the Company's other shareholders. Concurrently with the transfer of shares, it was determined that any right available to the Company's other shareholders would also be given to Mizrahi Tefahot Bank, proportionately according to their holdings prior to the transfer of shares.

The amount invested by Mizrahi Tefahot Bank in capital, as stated above, was made concurrently with the investment that was made by the Company's other shareholders. On the date of the aforementioned share transfer, the amounts invested by Mizrahi Tefahot Bank were classified as a perpetual loan, presented as part of the Company's equity.

The dividend that the Company distributed, as stated in Note 13 above, was also distributed to Mizrahi Tefahot Bank, in accordance with its stake, as stated above.

On August 28, 2019, the Company received a notice that, on August 27, 2019, a settlement agreement was signed (which the Company's consented to some of its sections), which was completed on September 4, 2019, according to which Bank Leumi Le-Israel Ltd., Bank Hapoalim Ltd., Israel Discount Bank Ltd. and the First International Bank of Israel Ltd. will transfer, in over the counter transactions, to Mizrahi Tefahot Bank Ltd., on the closing date of the agreement, shares representing at a total of 2.3% of the Company's share capital, in consideration of payment reflecting NIS 2.3728 per share as determined in the settlement, and which represented 33.34% of the share's closing price on the Tel Aviv Stock Exchange on July 14, 2019. The closing of the agreement will constitute the final and absolute waiver of all claims and demands – between Mizrahi Tefahot Bank Ltd. and the other banks, as stated above, and between Mizrahi Tefahot Bank Ltd. and the Company – in connection with the demand of Mizrahi Tefahot Bank Ltd.

In light of the foregoing, the perpetual loan in the Company's equity was classified as share premium.

Note 15 - Operating, General and Administrative Expenses

	For the year ended December 31		
	2020	2019	2018
	NIS in thousands		
Payroll and related expenses	31,931	31,939	30,261
Rent and office maintenance (*)	711	816	2,379
Hardware and software maintenance	4,907	4,909	4,118
Professional services	4,005	2,829	2,179
Salary of the Board members	1,867	978	984
Insurance	610	471	403
Telecommunications	743	766	973
Depreciation and amortization	5,897	6,089	4,959
Vehicle maintenance (*)	434	491	1,062
Professional courses and literature	98	142	99
Expenses in respect of issuance prospectus (**)	-	90	720
Others	448	380	676
Total other expenses	51,651	49,900	48,813

(*) The changes were mostly due to the adoption of IFRS 16.
(**) Pertains to costs that were borne by the Company in respect of an issuance prospectus that was published in 2019.

Note 16 - Finance Income (Expenses), Net

	For the year ended December 31		
	2020	2019	2018
	NIS in thousands		
Interest income from held-for-trading securities, net	2,548	1,895	3,195
Income (loss) from disposal and changes in fair value of held-for-trading securities	(291)	4,953	(4,868)
Income from dividends	-	2	12
Management fees on securities	(157)	(61)	(76)
Total income (expenses), net, from held-for-trading securities	2,100	6,789	(1,737)
Interest income from institutions	-	7	140
Finance expenses in respect of leases	(331)	(350)	-
Foreign currency gains and losses	(43)	-	1
Other finance income (expenses)	4	(22)	(18)
Total finance income (expenses), net	1,730	6,424	(1,614)

Note 17 - Contingent Liabilities and Commitments

A. **Pledges -** The Company's assets are free of any pledges and charges.

B. **Commitments**

1. Rental agreements

In the last quarter of 2017, the Company began relocating to its new offices in Holon. On November 12, 2015, the Company entered into an agreement, together with Bank Clearing Center Ltd., for the lease of a property in Holon for the Company's offices. The area of the leased property is 2,283 square meters. The annual rent, linked to the consumer price index, including management fees and parking spaces, amounts in total to approximately NIS 1,025 thousand for each company.

The lease period is 120 months (10 years). The Company has 2 options to extend the lease period by additional 5 years each, and in total 120 months (10 years). The Company estimates, with a high degree of probability that it will exercise the option periods.

2. Master agreement in respect of shared expenses with a related company

On December 27, 2017, a framework agreement was signed between the Company and Masav (hereinafter in this section, jointly: the "**Companies**"), which established a netting arrangement between the Company and Masav. This agreement formalized informal understandings that had existed between the Company and Masav until that date, with immaterial impact on the Company. On June 12, 2019, a new netting agreement was signed, instead of the aforementioned agreement (hereinafter: the "**Charging Agreement**").

The entry into effect of the charging agreement was conditioned upon Automatic Bank Services becoming a public company. The charging agreement is in effect for a five year period, from April 1, 2019 to March 31, 2024, subject to the right to terminate it before the end of the agreement period, subject to advance notice, as specified below, and the agreement will be extended automatically for an additional undefined period, and will remain in effect so long as neither of the parties has exercised its right to terminate the agreement (hereinafter, any such period: the "**Extended Period**"). During the extended period, each of the parties is entitled to terminate the charging agreement by giving a written notice 36 months in advance.

On November 24, 2019, the Company's Audit Committee approved the agreement period, including the extended period. During the extended period, after five years, insofar as the Company decides that it does not intend to terminate the charging agreement within the extended period, it will work to approve the agreement in accordance with the provisions of the law. The foregoing approval will not derogate from the Company's right to terminate the agreement prior to that date, in accordance with the provisions of the agreement, as stated above.

The charging agreement will apply to engagements for the provision of services of various types, and investments in property, plant and equipment:

(1) Services given by the companies to one another, and not to other customers, including in respect of officers;
(2) Services that are shared by the two companies, and given by one of the companies to both of them;
(3) Expenses shared by the companies, in respect of services given to both;
(4) Property, plant and equipment used by the two companies;

(5) The charging agreement does not apply to services given by the companies to one another, and which are also given to other customers, and which are paid for according to the companies' price list, as displayed on their websites;

With respect to services that the companies provide to one another, and are not given to other customers, each company receiving the service pays the cost of the services (the expenses incurred in connection with the provision of services), according to the actual scope of the work.

With respect to services that are shared by the two companies, and are given by one of the companies to both of them, the expenses incurred in connection with the provision of services are divided (with respect to those services between the companies, according to an estimate of each company's share of activity in the receipt of the services, according to the nature of the service). The estimate regarding the share of activity is evaluated each year, and approved in accordance with the law. The Company's Audit Committee evaluates, once per year, the distribution between the Company and Masav, and insofar as a decision is reached that in case a change in this distribution is required, the change in distribution is implemented subject to obtaining the legal approvals, if any are required.

With respect to services in development, project management and QA, an evaluation of the activity share for the purpose of the distribution of expenses is performed once per quarter, and once per year the Company's Audit Committee will evaluate the reasonableness of the distribution of expenses between the Company and Masav, in respect of those fields, as was done in the previous year.

In case the Audit Committee's evaluation indicates that it is necessary to reduce the payment loaded onto Masav and to increase the payment loaded onto the Company, the Company will consider such change, in compliance with the provisions of section 268 of the Companies Law, and the materiality of the change.

Note 17 - Contingent Liabilities and Commitments (Cont.)

B. Commitments

2. Master agreement in respect of shared expenses with a related company (Cont.)

With respect to future engagements, the master agreement stipulates that insofar as such engagements are not extraordinary, the audit committees and boards of directors of each of the companies may approve, once per year, and in accordance with Proper Conduct of Banking Business Directive 312 (insofar as this regulation applies to any of the companies), that any engagement meeting the criteria specified in the framework agreement is pre-approved by the audit committee.

Non-extraordinary future engagements, as stated above – including the fulfillment of the conditions for the criteria, and including the ratios of distribution between the companies in respect of the actual scope of the work, the determination of the volume of activity, or the determination of the share of each company in the receipt of the services, will be approved and determined by prior consent of the VPs of the Company and Masav, following consultation with the CEO, without prejudice to the applicable provisions of the law, including the need to obtain approval from the Company's Audit Committee, as stated above. In case of a dispute, the matter will be presented to the arbitrator for resolution. The charging date will begin on the date when the provision of services begins in practice.

Insofar as the matter involves future extraordinary engagements, as defined in the Companies Law, each company will determine its competent organs for the purpose of approving those engagements at that time, and present the engagement to those organs, prior to their execution.

Note 17 - Contingent Liabilities and Commitments (Cont.)

C. Decision of the Competition Commissioner

Since 2002, the Company operates in compliance with decisions of the Competition Authority regarding an exemption from a restrictive arrangement between Bank Hapoalim Ltd, Bank Leumi Ltd, Discount Bank, First International Bank of Israel Ltd, Mizrahi Tefahot Bank Ltd and the Company.

The latest decision regarding the exemption from approval of a restrictive arrangement was issued on September 24, 2017 for a period of five years, until September 24, 2022 (hereinafter: the "Exemption Decision").

The exemption refers to several main points:

(A) 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 and a system for collection and processing of transactions;
(3) Engagement in activity related to the protocol for a limited period, as specified in section (B) below;
(4) Engagement in activities involving the Ashrait 96 protocol;
(5) Development, operation and distribution of Ashrait PC software;
(6) End-to-end authorization services for the EMV standard;
(7) Activities associated with the aforementioned field of activity;
(8) Any additional field of activity that may be approved by the Commissioner.

(B) Transfer of rights to the Ashrait EMV protocol – Transfer all rights of the Company to the Ashrait EMV protocol to a nonprofit that was set up for that purpose for no consideration, with the Company discontinuing to be active in relation to that protocol. This is to be done according to the milestones and timeline specified in the Exemption and subsequent updates, as may be issued by the Commissioner from time to time.
(C) The terms under which the Company will be permitted to distribute dividends, as indicated in section 5 above.
(D) Various provisions regarding the terms for connection to systems of the Company as well provisions regarding activity with vendors and providing end-to-end certifications for the EMV standard.
(E) Additionally, the Exemption Decision provides that the Company is required to post on its website rates for each of the services it provides.

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

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. Note that the costs that the Company incurred while preparing the protocol were at immaterial amounts and were expensed as incurred to profit or loss. Further note that even before the decision by the Commissioner, the protocol was transferred by the Company to participants who asked for that (subject to signing a non-disclosure agreement) for no consideration, but the transfer to the Association may help potential competition to enter the market where the Company operates.

Upon transferring the rights to the protocol to the Association, an agreement was signed between the Company and the Association for services concerning the activity around the protocol and to set certain additional terms and conditions, including the consideration payable to the Company for those services (at an immaterial amount to the Company), confidentiality, data security and warranty .

According to the Exemption Decision and the revised dates set by the Commissioner, the Company provided the Association with specification, development and operational services through December 31, 2020, and to the extent that the Association is interested, the Company will continue to provide the Association operational services through April 30, 2021 or a later date mandated by the Supervisor of Payment Systems in the Bank of Israel, and subject to consent by the Commissioner of Competition.

On August 29, 2019, the Competition Authority notified the Company that it found it appropriate to accept the position of the Company, and adopt an interpretation that the terms of the exemption require the transfer of rights in relation to the protocol regarding the segment connecting the Company and the points of sale (POS) only.

On October 28, 2019, a notice was received from the Competition Authority regarding the mutual interest 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), 5777-2017, 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 banks, the Company and Masav continue maintaining significant interrelationship (including shared management headquarters and offices; shared technological infrastructure and backup facilities; and other shared services). The Competition Authority believes, 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 aforementioned type between competitors 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 parties, particularly when the collaboration also pertains to the parties' decision-making mechanisms.

In light of the above, the Competition Authority believes, prima facie, that the relationship constitutes a restrictive arrangement without an approval or a temporary permit from the Antitrust Court, or an exemption from the Competition Commissioner. The Competition Authority also believes, in light of the alleged antitrust concerns, that it is highly unlikely that the arrangement will meet the conditions for a block exemption among those listed in section 15A of the Economic Competition Law, 5748-1988. 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.

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 services, provided by one company to the other, and services shared by both, including shared CEO and headquarters, technology infrastructure and backup facilities, communications, data security, internal audit, human resources, insurance and risk management, and joint 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 (10) 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 may 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 in practice.

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 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 reduced 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 of the Competition Authority for public viewing, subject to a request to maintain confidentiality filed by the Company and Masav, to allow filing objections within 30 days from publication by any parties seeing themselves as negatively affected by the arrangement. No objections have been filed against the motion.

On September 29, 2020, the Company received the position of the Competition Commissioner, 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 Commissioner.

The Company received a right to respond to the Commissioner's position within 60 days after the end of the procedure for disclosure and revelation of third-party documents that the Authority relied on in determining its position . This procedure has ended as of the date of publishing this report.

On December 27, 2020, the Commissioner filed a motion to the court (hereinafter: "the Motion") to exercise the powers vested in her by Section 50A to the Competition Law and order the Company and Masav to discontinue the restrictive arrangement between them within 30 days, or any other timeframe that the court may see fit in the circumstances of the case, provided they do not hold a permit under Section 13 to the Competition Law; a court approval under Section 9 to the Competition Law; or exemption from the duty to receive such approval under Section 14 to the Competition Law; alternatively, any other order that the court may see fit in the circumstances of the matter.

In the Motion, the Commissioner reiterated her position that the synergies between the Company and Masav already constitute a restrictive arrangement, and one that has not received approval from competition regulators, and thus, is in prolonged violation of the Law. Therefore, the Commissioner said it was her duty to file the Motion to the court, asking to exercise its powers and order to end this violation.

The Commissioner noted that she was aware of the difficulty posed by immediate and complete break of all cooperation between the Company and Masav, and that she believed that uncontrolled separation may damage the public, and therefore, she recommended granting a temporary permit to allow for continuation of some cooperation until the court rules on the motion filed by the Company and Masav for incremental discontinuation of another part of those synergies even before a decision on the motion for approval is handed down. The Commissioner notified the Court it was ready to discuss the matter with the Company and Masav before issuing its position, as started before filing the motion to approve.

The Company and Masav filed their response to the Motion on January 14, 2021.

The Commissioner filed its reply to the response on February 2, 2021.

On February 10, 2021, the court rejected the Motion. The court noted in its ruling, among other things, that a sweeping change that spells immediate termination of cooperation between the Company and Masav may inflict a significant negative impact on the public, and that the Company and Masav have an valid and serious argument that should be considered, namely, that the requested order may destabilize the payment system and even compromise in a tangible way the purpose of the principle proceeding. Without prejudice to the above, note that the court indicated in its decision that it did not provide a seal of approval to the existing situation or prevent the Commissioner to exercise her authority under the law. For more information, see note 20 below.

The following is a description of additional exemption decisions that were granted by the Commissioner, which do not apply directly, but are relevant to the activity of the Company:

- 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, inter alia, the mutual recognition agreement of the banks regarding the determination of the mutual fees between them in the ATM segment, an agreement to which the Company is not party to.
- On June 18, 2020, a decision was given to Masav regarding a five-year exemption a from restrictive arrangement. The Competition Commissioner noted in her decision that the issue of

affiliation between the Company and Masav is being examined by her separately, and that she did not consider that in the exemption decision to Masav. However, the Commissioner indicated that the exemption decision to Masav does not approve of those affiliations or any other cooperation between Masav and the Company.

D. Claims and class actions

Various claims were filed 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 the 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 claim amount was estimated at NIS 47.3 million.

   The Company filed its response to the motion to certify, in which it asserted, inter alia, that it would be justified to summarily dismiss the motion to certify.

   In accordance with the Court's order, on September 20, 2015, 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 is 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 June 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 program called MultiXFS, which was developed by Mitug on behalf of the Company in 2006, and which was 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 sought is for court fee purposes, while asserting, inter alia, that the sale of the ATMs by the Company to Hatamar Fund, in which the aforementioned software program is installed, without obtaining approval and the payment of 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.

The Company filed a statement of defense on its behalf, 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 Company management, and based on its legal advisors, at the current stage of the case, 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.

Note 17 - Contingent Liabilities and Commitments (Cont.)

D. Claims and class actions

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 in respect of the use of ATMs it operates. This fee was allegedly not included in the Company's price list. In the motion to certify, the claim amount 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 Company published an immediate report, according to which, on July 29, 2020, the Tel Aviv District Court handed down a ruling certifying the mutually-agreed motion by the plaintiff to withdraw the motion to certify a class action against the Company, without awarding expenses. The motion to certify will be eliminated and the personal claim by the plaintiff against the Company is also dismissed.

4. On June 22, 2020, Had Nes South Marketing 2015 Ltd (hereinafter: "Had Nes") filed a motion to certify a class action against Nayax Retail (hereinafter: "Nayax"), Pele Card Ltd and Isracard Ltd (hereinafter respectively: "the Certification Motion" and the "Respondents").

   The focus of the Had Nes claim is a security breach that can be abused to create a slip that resembles a credit card transaction approval even in cases where no such approval is received from the company providing the clearing services to the business or the company issuing the credit card of the customer, such that the business discovers after the fact that no consideration is receivable from the clearing company for a transaction for which no approval was given.

   On December 31, 2020, Nayax filed a motion to permit sending third-party notices against all other respondents, as well as the Company (hereinafter: "the Motion to Add")

   In the Motion to Add, Nayax mainly denied its responsibility since it claims to provide Had Nes cash register software only, while the Respondents, including the Company, bear responsibility since they provided the clearing services.

   On January 21, 2021, the court ordered the Company to file its response to the Motion to Add and the Motion to Certify by April 11, 2021. As of the date of this report, a response has not yet been filed.

   At this preliminary stage of the case, management and its legal counsel are unable to assess the likelihood of the Motion to Certify or the Motion to Add.

Note 18 - Financial Instruments and Management of Financial Risks

A. Management of financial risks - general

The Company is exposed to the following risks due to the use of financial instruments:
(1) Credit risk
(2) Liquidity risk
(3) Market risk (including currency risk, interest rate risk and other price risk)

This note provides information regarding the Company's exposure to each of the foregoing risks, as well as the Group's goals, policies and procedures regarding the measurement and management of the risk. Additional quantitative disclosure is included throughout these entire financial statements.

The Company's CEO, Mr. Moshe Wolf, is responsible for risk management, while the Board of directors has the overall responsibility for creating and overseeing the framework for managing risk at the Company.

The market risks to which the Company is exposed are mostly due to the holding of its portfolio of held-for-trading securities.

The Company's risk management policy was formulated in order to identify and analyze the risks faced by the Company, to establish appropriate restrictions for risks and controls, and to oversee the risks and compliance with restrictions. The policy and methods of risk management are reviewed on an ongoing basis in order to reflect changes in market conditions and in the Company's activity.

The information included in this note relies significantly on estimates. For this purpose, attention is hereby drawn to the discussion in Note 2C above regarding the use of estimates in the financial reports, and the uncertainty associated with these estimates.

(1) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and mostly arises from cash and cash equivalents, investments in marketable securities, customer debts and other receivables.

(A) The Company has cash, cash equivalents, deposits and capital market investment portfolios which are deposited with a large banking corporation. Accordingly, Company management does not expect losses due to this credit risk.

(B) The Company's main customers are financially robust credit card companies. There is also a large number of other entities whose debts to the Company amount to immaterial sums. The Company's exposure to customer credit is therefore minimal. The Company is not required to set aside a provision for doubtful debts.

(2) Liquidity risk

Liquidity risk is the risk that the Company will not be able to service its financial liabilities when they come due. The Company's approach to the management of its liquidity risk is to ensure, to the extent possible, a liquidity level that is sufficient for duly meeting its obligations, under ordinary and distressed conditions, without incurring unwanted losses or damage to its reputation.

The Company continuously monitors its cash flow requirements, and ensures that sufficient amounts of cash are available on demand to pay expected operating expenses, amounts required to service financial liabilities, and amounts required for investments and for the development of the Company's business. The Company does not require external financing sources, and finances all of its activities and investments using its own resources.

(3) Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, the consumer price index, interest rates and prices of marketable financial instruments, will affect the Group's revenue or the value of its holdings of financial instruments. The purpose of market risk management is to manage and oversee the exposure to market risk within commonly-used parameters, in order to achieve a particular return from the proprietary investment portfolio, while keeping risks at a minimum.

The Company has a securities portfolio that is presented at fair value, in accordance with quoted market prices. This portfolio is exposed to risks in accordance with the prices of securities on the stock exchange.

(A) <u>Exchange rate and inflation risk</u>
A part of the Company's portfolio of held-for-trading securities is denominated in and/or linked to foreign currency, mostly to the USD and/or to the Israeli CPI. The Company therefore has a certain currency exposure, and exposure to changes in the CPI in respect to this portfolio.

(B) <u>Interest rate risk</u>
Some of the held-for-trading securities are government bonds and/or corporate bonds, and the Company also has interest bearing deposits in NIS. The Company therefore has exposure to changes in the Bank of Israel interest rates in connection to these items.

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

B. Credit risk

Exposure to credit risk

The

	As of December 31	
	2020	**2019**
	NIS in thousands	
Cash and deposits in banks	49,343	32,687
Held-for-trading securities	111,506	98,478
Trade receivables	17,974	19,161
Other receivables	2,346	2,334
Total	181,169	152,660

carrying amount of financial assets represents the maximum credit exposure.
The maximum exposure to credit risk is as follows:

C. Liquidity risk

The following table presents the contractual maturity periods of financial liabilities, in undiscounted amounts (including interest payments):

	As of December 31, 2020					
	Up to one year	**One to two years**	**Two to 3 years**	**4 years or more**	**Cash flow forecast**	**Carrying value**
	NIS in thousands					
Trade payables	1,357	-	-	-	1,357	1,357
Lease liability	1,132	1,005	844	8,850	11,831	9,300
Other accounts payable	11,777	-	-	-	11,777	11,777
Current tax liabilities	1,056	-	-	-	1,056	1,056
Total	15,322	1,005	844	8,850	26,021	23,490

	As of December 31, 2019					
	Up to one year	**One to two years**	**Two to 3 years**	**4 years or more**	**Cash flow forecast**	**Carrying value**
	NIS in thousands					
Trade payables	3,000	-	-	-	3,000	3,000
Lease liability	1,123	903	788	9,662	12,476	9,608
Other accounts payable	8,249	-	-	-	8,249	8,249
Current tax liabilities	2,195	-	-	-	2,195	2,195
Total	14,567	903	788	9,662	25,920	23,052

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

D. Index and foreign currency risks

(1) Exposure to inflation risk and foreign currency risk

The Company's exposure to inflation risk and foreign currency, which is based on nominal values, is as follows:

	As of December 31, 2020			
		In Israeli currency		
	In foreign currency	Linked to the consumer price index	Unlinked	Total
	NIS in thousands			
Assets				
Cash and deposits in banks	870	-	48,473	49,343
Held-for-trading securities	10,295	39,111	62,100	111,506
Trade receivables	-	-	17,974	17,974
Other accounts receivable		64	2,346	2,410
Total financial assets	**11,165**	**39,175**	**130,893**	**181,233**
Liabilities				
Current maturities in respect of lease	-	819	-	819
Trade payables	-	-	1,357	1,357
Other accounts payable	-	-	11,777	11,777
Income tax payable	-	1,056	-	1,056
Lease liabilities	-	8,481	-	8,481
Total financial liabilities	**-**	**10,356**	**13,134**	**23,490**
Excess of financial assets over financial liabilities	**11,165**	**28,819**	**117,759**	**157,743**

	As of December 31, 2019			
		In Israeli currency		
	In foreign currency	Linked to the consumer price index	Unlinked	Total
	NIS in thousands			
Assets				
Cash and deposits in banks	-	-	32,687	32,687
Held-for-trading securities	8,766	38,789	50,923	98,478
Trade receivables and income receivable	-	-	19,161	19,161
Other accounts receivable	-	70	2,334	2,404
Total financial assets	**8,766**	**38,859**	**105,105**	**152,730**
Liabilities				
Current maturities for leases	-	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	**-**	**11,803**	**11,249**	**23,052**
Excess of financial assets over financial liabilities	**8,766**	**27,056**	**93,856**	**129,678**

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

(2) Sensitivity analysis

The chosen changes in the relevant risk variables were determined according to the estimates of management regarding reasonable possible changes in these risk variables.

The Company performed sensitivity tests of principal market risk factors which have the potential to affect the operating results or the reported financial position. The sensitivity tests present profit or loss and/or the change in equity (pre-tax), in respect of each financial instrument for the relevant risk factor which was chosen for it as of each reporting date. The evaluation of the risk factors was performed based on materiality of the exposure of operating results, or the financial performance in respect of each risk factor, with reference to the functional currency, and assuming that all other variables remain unchanged.

A stronger USD vs. the NIS as of December 31, and a higher consumer price index would have increased (decreased) equity and profit or loss by the amounts presented below. This analysis was performed assuming that all other variables, and particularly interest rates, remained unchanged. The analysis in respect of 2018 was done in accordance with that basis.

A lower USD/NIS exchange rate at the same rate, and a lower consumer price index at the same rate, as of December 31, would have had an identical effect, although in the opposite direction, and in the same amounts, assuming that all other variables remained constant.

	As of December 31, 2020		As of December 31, 2019	
	Equity (*)	Profit (loss)(*)	Equity (*)	Profit (loss)(*)
	NIS in thousands			
Increase of 5% in the consumer price index	1,441	1,441	1,349	1,349
Increase of 5% in the exchange rate	558	558	438	438
Increase of 5% in the interest rate	5,888	5,888	4,830	4,830

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

E. Fair value of financial instruments

The Company's financial instruments include the following assets and liabilities: cash and deposits in banks, held-for-trading securities, other accounts receivable, and other accounts payable. Due to their nature, the fair value of the Company's aforementioned financial instruments is identical to, or approximates the value at which they are presented in the financial statements.

	As of December 31, 2020				
		Fair value			
	Presented in balance sheet	Level 1	Level 2	Level 3	Total
	NIS in thousands				
Financial assets					
Cash and deposits in banks	49,343	49,343	-	-	49,343
Held-for-trading securities	111,506	111,506	-	-	111,506
Trade receivables	17,974	-	-	17,974	17,974
Other accounts receivable	2,410	-	-	2,410	2,410
Total financial assets	181,233	160,849	-	20,384	181,233
Financial liabilities					
Current maturities in respect of lease	819	1,132	-	-	1,132
Trade payables	1,357	1,357	-	-	1,357
Other accounts payable	17,123	-	-	17,123	17,123
Income tax payable	1,056	1,056	-	-	1,056
Lease liabilities	8,481	10,698	-	-	10,698
Total financial liabilities	28,836	14,243	-	17,123	31,366

	As of December 31, 2019				
		Fair value			
	Presented in balance sheet	Level 1	Level 2	Level 3	Total
	NIS in thousands				
Financial assets					
Cash and deposits in banks	32,687	32,687	-	-	32,687
Held-for-trading securities	98,478	98,478	-	-	98,478
Trade receivables	19,161	-	-	19,161	19,161
Other accounts receivable	2,404	-	-	2,404	2,404
Total financial assets	152,730	131,165	-	21,565	152,730
Financial liabilities					
Current maturities in respect of lease	793	1,193	-	-	1,193
Trade payables	3,000	3,000	-	-	3,000
Other accounts payable	11,866	-	-	11,866	11,866
Income tax payable	2,195	2,195	-	-	2,195
Lease liabilities	8,815	11,353	-	-	11,353
Total financial liabilities	26,669	17,741	-	11,866	29,607

(*) Level 1 - fair value measurements using quoted prices on an active market.
Level 2 - fair value measurements using other significant observable inputs.
Level 3 - fair value measurements using significant unobservable inputs.

Note 19 - Interested Parties and Related Parties

A. Until the date when the Company became public, in May 2019, most of the Company's shareholders (the banks) held at least 10% or more of the Company's share capital. After the Company became public, as specified in Note 1 above, there is no shareholder holding over 10% of the Company's share capital.

B. Related company - The related company – Masav – is held by some of the Company's shareholders (at different holding rates than the Company), at rates higher than 25%, and it therefore qualifies as a related company.

C. Balances

	Balance as of December 31	
	2020	2019
	NIS in thousands	
Assets:		
Cash and deposits in banks (1)	49,343	32,638
Held-for-trading securities (1)	111,506	98,478
Receivables - Related company (2)	2,345	2,306
Trade receivables and income receivable (banks and companies issuing and clearing credit cards) (3)	5,005	12,271

(1) Refers to cash, deposits and held-for-trading securities held by the Company and deposited with a bank that is a shareholder of the Company.
(2) Refers to Masav, in respect of the reimbursement of expenses and participation in expenses.
(3) As of December 31, 2020, refers to only two companies issuing and clearing credit cards that are still defined as interested parties. As of December 31, 2019, refers to four companies issuing and clearing credit cards as interested parties of the Company.

D. Summary of business results with interested parties and related parties

	For the year ended December 31		
	2020	2019	2018
	NIS in thousands		
Receivables from related company (1)	15,059	16,750	14,246
Expenses to related company (1)	4,775	5,754	4,739
Revenue from the provision of services (2)	24,882	57,531	63,847
Finance income (expenses), net (3)	2,062	6,744	(1,768)

(1) Revenue, reimbursement of expenses, etc. that were received from / paid to Masav, as specified in Note 17B2.
(2) Revenue from credit card companies, banks that are Company shareholders, and entities associated with them; information for 2020 refers to only two companies issuing and clearing credit cards that are still defined as interested parties. As of December 31, 2019, refers to four companies issuing and clearing credit cards that are still defined as interested parties of the Company.
(3) Interest income and expenses include transactions made with interested parties under the same conditions that would have applied had those transactions been executed with non-interested parties or related parties. The information refers mostly to net gain (loss) earned by the Company from its portfolio of held-for-trading securities, which is deposited in a bank that is a shareholder of the Company, and not from direct transactions with that bank.

Note 19 - Interested Parties and Related Parties (Cont.)

E. Criteria for the classification of negligible transactions

In April 2019, the Company's Board of Directors adopted rules and guidelines for the classification of transactions of the Company with Masav, or where Masav has direct interest, as "negligible transactions", as prescribed in Regulation 41(a)(6)(a) of the Securities Regulations (Preparation of Annual Financial Statements), 5770-2010 (hereinafter: the "Negligible Transaction Policy"), such that, in the absence of special considerations arising from the circumstances of the matter, a (non-extraordinary) negligible transactions will any of the transaction types specified below, and which will serve the Company, in reaching decisions in connection with the approval and reporting of transactions.

A negligible transaction of the Company takes place in the Company's ordinary course of business and under market conditions, is provided by the Company to Masav or by Masav to the Company, is not included under the charging agreement between the Company and Masav, is also given to other customers of the Company or of Masav, as applicable, and does not exceed the materiality threshold for negligible transactions, as specified below.

1. **<u>Evaluation of the transaction's market conditions:</u>**
   The transaction is considered as a 'transaction at arm's length' insofar as it is executed in accordance with the price list of the Company or of Masav, as applicable.

2. **<u>Evaluation of materiality:</u>**
   In the absence of special qualitative considerations, as arising from the entire set of relevant circumstances, a transaction with Masav is considered negligible based to the following factors:
   The annual revenue or expense in respect of the engagement in question does not exceed 1% of the Company's annual operating revenue (as defined below) in the Company's annual financial statements during the year preceding the date of the engagement.

   For the purpose of this section, operating revenue is the Company's revenue in the financial statements, after neutralizing finance income.

3. **<u>Qualitative considerations:</u>**
   It needs to be determined that a transaction is not exceptional in qualitative terms. In this regard, it is noted that the evaluation of the qualitative aspects of a transaction with Masav may result in the transaction being classified as an extraordinary transaction despite the foregoing.

   Note that if it is unclear whether a transaction meets the criteria, this issue needs to be presented to the Audit Committee.

   3.1 Each transaction is evaluated separately; however, if the transaction constitutes a step, entirety, or part of another transaction, a single evaluation is carried out for all the aforementioned transactions together, on an annual basis.
   3.2 The non-extraordinary status of a multi-annual transaction (a transaction over a period of several years) is re-evaluated each year based on the conditions described above, in accordance with the extent of the transaction performed in that year.

Note 19 - Interested Parties and Related Parties (Cont.)

F. Liability for indemnification of directors and officers

According to the compensation policy, subject to the approval of the Company's competent organs, and subject to the provisions of the Companies Law, the Company is entitled to issue advance letters of indemnity to officers of the Company and/or to indemnify officers of the Company retroactively, to acquire liability insurance policies for other directors and officers in the Company, and to waive the liability of officers in the Company.

The Company's general meeting held on July 7, 2014 approved an amendment to the Company's articles of association, which was intended to align its provisions to current legal development regarding waivers, indemnity and insurance. Inter alia, the amendment to the articles of association is intended to allow the Company to indemnify and/or insure officers in the Company, according to the scope and conditions permitted by the Companies Law. The proposed amendment is also intended to allow the Company to indemnify and/or insure officers in the Company in accordance with and subject to the provisions of the Restrictive Trade Practices Law, 5748-1988, as amended within the Restrictive Trade Practices Law (Amendment No. 13), 5772-2012.

The general meeting of the Company's shareholders held on July 7, 2014 also resolved to approve granting to directors of the Company letters of indemnity with uniform wording. The letters of indemnity determine that the maximum amount of indemnification that may be given to all of the Company's officers, cumulatively, may not exceed an amount equal to 25% of the Company's equity, in accordance with the Company's latest financial statements as published before the approval date of the letter of indemnity.

It is the Company's practice to renew, each year, its engagement in the liability insurance policy for other Company directors and officers.

Note 19 - Interested Parties and Related Parties (Cont.)

On October 2, 2018, after accepting the recommendation of the Company's Remuneration Committee and Board of Directors, the general meeting of the Company's shareholders approved a revision to the framework agreement regarding insurance, as follows:

(1) The Company's engagement in an insurance policy for directors and other officers (hereinafter: "Annual Policy") is made in respect of several insurance periods, beginning from the end of the current insurance policy (December 31, 2018) or the issuance date, whichever is earlier, until (no later than) the end of the policy period, which will be renewed in 2023; The annual policy may be purchased by extending and/or renewing the policy, or by purchasing another policy, if necessary;

(2) The Remuneration Committee, and later the Board of Directors, approve each purchase of an annual policy, and certify that the annual policy is in accordance with the Company's compensation policy in effect as of approval date;

(3) The Remuneration Committee and the Board of Directors approve, in connection with any purchase of an annual policy, that its conditions are reasonable, and in favor of the Company, while considering the exposures of the officers and the Company, the scope of coverage, and market conditions, subject to the fulfillment of the following conditions:
- The liability limit of the annual policy may not exceed USD 15 million per event and per annual insurance period (plus reasonable legal expenses), plus the annual rate of devaluation of the USD vs. the NIS (if any), beginning from the date of the general meeting's approval;
- The annual premium in respect of the annual policy may not exceed a total of USD 45,000, with an increase of up to 15% each year, and up to an annual premium that may not exceed USD 90,000 in any event.

(4) The Company is authorized to immediately increase the current annual policy up to a liability limit of USD 15 million. The premium for the increased liability limit relative to the current annual policy (with a liability limit of USD 5 million) may not exceed a total of USD 20,000.

Note 19 - Interested Parties and Related Parties (Cont.)

(5) For the purpose of the public offering, the Remuneration Committee, and later the Board of Directors, are authorized to approve the Company's engagement in a POSI policy to cover the liability of the Company's directors and other officers due to the offering (hereinafter: the "**POSI Policy**"). The POSI policy may cover a period of up to (not more than) 7 years after the offering date; The liability limit in the POSI policy may not exceed USD 15 million per event and cumulatively for the entire insurance period (plus reasonable legal expenses); The total premium in respect of the POSI policy may not exceed a total of USD 50,000, and the POSI policy may be non-cancelable unless the offering is effectively canceled. It is hereby clarified that this policy comes in addition to the current annual policy. On May 2, 2019, the Company engaged in a POSI policy in accordance with the terms of the framework decision.

G. Benefits to interested parties and to senior members of management:

	For the year ended December 31		
	2020	2019	2018
Composition:	NIS in thousands		
Salary and associated benefits to the Company's employed CEO [(1)]	1,888	1,816	1,738
Changes in benefits to employees (2020 – including changes from retirement agreement)	(898)	275	44
Participation of related company in the aforementioned costs	(294)	(679)	(621)
Costs after participation of a related company	696	1,412	1,161
Number of people	1	1	1
Compensation to directors who are not employees of the Company (*)	1,867	978	984
Number of directors (*)	9	4	5
Insurance premium in respect of directors and officers	172	109	42

1. As specified in Note 12, senior members of management, including CEO, receive bonuses, the eligibility for which, and the amounts of which, are subject to the approval of the Board of Directors. The Board of Directors' approval, as stated above, is usually given after the approval date of the financial statements. However, in accordance with the accounting policy adopted by the Company, the financial statements include a provision for bonuses, according to an estimate that refers to all of the Company's employees together. The costs specified above include the costs that were actually paid by the Company in respect of the bonuses in each year, according to the bonus approved by the Board of Directors in a certain year, in respect of the previous year. In other words, the costs in 2020 and 2019, as specified above, include the bonuses approved in 2020 and 2019, in respect of 2019 and 2018, respectively.

(*) Beginning in November 2019, nine directors hold office in the Company.

Note 19 - Interested Parties and Related Parties (Cont.)

H. Benefits to key management personnel:

	For the year ended December 31		
	2020	2019	2018
Composition:	NIS in thousands		
Payroll, management fees and benefits	3,704	3,853	3,685
Changes in benefits to employees (2020 – including changes from retirement agreement)	(744)	278	84
Bonuses	760	690	565
Participation of related company in the aforementioned costs	(979)	(1,383)	(1,264)
Costs after the participation of a related company	2,742	3,438	3,070
Number of people	4	4	4

(*) Reclassified

Note 20 - Subsequent Events

- At the end of 2019, the lease agreement for one of the Company's computing backup sites was expired. The Company reached commercial understandings, and is acting in accordance with them, vis-à-vis the lessor regarding the continuation of the lease period for 5 additional years, with two option periods of 5 additional years each, which are in negotiations regarding the lease terms during the extension period.
- On November 29, 2020, the Company's Board of Directors resolved to distribute a dividend of NIS 11,700 (approx. NIS 0.2925 per share). According to clarifications received on this matter from the banking regulator, and in light of their position on that matter, the Company approached the regulator to obtain approval for the distribution. On February 28, 2021, the Company's Board of Directors held an additional discussion on that matter approving its November 29, 2020 resolution on the dividend distribution. For more information, see immediate reports issued by the Company on November 29, 2020 (Ref. No. 2020-01-121195) and March 1, 2021 (Ref. No. 2021-01-024621).
- On January 5, 2021, representatives of the Company's Board of directors made a non-binding acquisition proposal to Masav shareholders.
  On February 28, 2021, the Company informed its shareholders that after it withdrew its proposal, suspended its activity and reserved the right to approach in the future according to developments.
- On February 10, 2021, the court rejected the Motion. The court noted in its ruling, among other things, that a sweeping change that spells immediate termination of cooperation between the Company and Masav may inflict a significant negative impact on the public, and that the Company and Masav have an valid and serious argument that should be considered, namely, that the requested order may destabilize the payment system and even compromise in a tangible way the purpose of the principle proceeding. Without prejudice to the above, note that the court indicated in its decision that it did not provide a seal of approval to the existing situation or prevent the Commissioner to exercise her authority under the law.
- On February 28, 2021, the Board of Directors approved the appointment of Mr. Bisteri as active chairman beginning on March 1, 2021 and through the end of his present terms in officer, i.e. January 2, 2024, subject to approval or absence of objection by the Supervisor of Banks to the extension of term as chairman. Note that Mr. Bisteri serves as director of the Company since February 4, 2014 and as Chairman of the Board since June 18, 2018.
- On February 28, 2021, the Company called a shareholders' meeting for April 6, 2021, to approve the terms of service of Mr. Shlomo Bisteri as the active Chairman. Subject to approval by the shareholders' meeting, Mr. Bisteri will be entitled to a monthly salary (management fee) of NIS 38,000 plus VAT for providing services as Chairman at 40% of full-time equivalent ("the Consideration"). The Consideration to Mr. Bisteri will be paid beginning on March 1, 2021. The Company's Board is entitled to update the number of hours from time to time, based on the needs of the Company, and accordingly, the Consideration will be revised proportionally, but in any event, the monthly consideration may not be less than NIS 25,000 plus VAT.
- On December 31, 2020, Mr. Wolf notified the Company of his intention to step down as CEO of both the Company and Masav. The end of this term is scheduled to June 30, 2021 (unless it is agreed on an earlier date). For more information, see immediate report published by the Company on December 31, 2020 (Ref. no. 2020-01-143436). For more information on the terms of employment of Mr. Wolf as CEO of the Company, see note 20 to the financial statements and the disclosure under Regulation 21 in the Additional Corporate Information chapter. Following the discussion in section 16.4 below, note that following a letter sent to the Company by the Bank of Israel and following the notification by the CEO that he wished to step down, as indicated above, the Company examined an option to separate the managements of the Company and Masav, including appointment of a separate CEO for each company. On March 17, 2020, the Bank of Israel (regulators of banks and payment systems) notified the Company and Masav that it did not oppose the steps proposed by the companies for implementing the separation of management teams, meaning that separate CEOs will first be appointed until June 30, 2021, and the new CEOs will later perform a process of learning and organization until September 30, 2021, followed by a process of

planning, reorganization and hiring of the necessary staff for separating the management teams not later than October 2022.
The Bank of Israel expects that the required organization structure for each company will be formalized by each of the new CEOs, and will include, at the minimum, the following functions: risk management, legal and regulation, internal audit, finance, customer relation management, business development and human resources, with the appropriate number of employees for each function is to be determined based on the needs and considerations of each of the companies. Additionally, the companies will be able to outsource those functions.
For more information, see immediate report published by the Company on January 27, 2021 (Ref. no. 2021-01-011841) and an immediate report published by the Company on March 16, 2021 (Ref. no. 2021-01-036255).

Additional Details Regarding the Corporation

Additional Corporate Information

Table of Contents:

Regulation 10A: The Corporation's condensed statements of comprehensive income, by quarters, in 2019 (NIS in thousands)

	In 2020				
	Q1	Q2	Q3	Q4	2020
	Unaudited				Audited
	NIS in thousands				
Revenues					
From the provision of services to credit card companies	19,243	17,849	20,321	20,373	77,786
From the provision of services to others	1,945	1,714	1,990	1,768	7,417
Total revenues	21,188	19,563	22,311	22,141	85,203
Operating, general and administrative expenses	12,461	12,216	13,655	13,319	51,651
Operating profit	8,727	7,347	8,656	8,822	33,552
Finance income (expenses) from marketable securities, net	(5,546)	3,375	1,071	3,200	2,100
Finance income	13	6	-	1	20
Finance expenses	(90)	(88)	(88)	(124)	(390)
Finance income (expenses), net	(5,623)	3,293	983	3,077	1,730
Profit before taxes on income	3,104	10,640	9,639	11,899	35,282
Income tax	1,086	2,242	2,132	2,702	8,162
Net profit attributable Company shareholders	2,018	8,398	7,507	9,197	27,120
Net earnings per share attributable to shareholders (in NIS)	0.05	0.21	0.19	0.23	0.68
Net income	2,018	8,398	7,507	9,197	27,120
Other comprehensive loss before tax:					
Adjustments of liabilities in respect of employee benefits	204	13	(667)	750	300
Attributable tax impact	(47)	(3)	153	(172)	(69)
Other comprehensive loss attributable to shareholders, after taxes	157	10	(514)	578	231
Comprehensive income attributable to shareholders	2,175	8,408	6,993	9,775	27,351

Regulation 20: Trading on the stock exchange - securities listed for trading - dates and reasons for suspension of trading

During the reported year and through the date of issuing the report, the following trading halts:

On March 16, 2020, trading in the share of the Company was halted between 3:15-3:45 pm for a sharp price fluctuation.

Regulation 21: Payments to interested parties and officers in 2020

Presented below are details regarding the compensation which was given in respect of 2020 to each of the highest compensation recipients among the executives of the Company or of any corporation under its control, or to interested parties, and which were given to them in connection with their tenure in the Company or in any corporation under its control (the following figures reflect the employer's cost, and are presented on an annual basis):

Details of compensation recipient*				Compensation for services * (NIS in thousands)							Other compensation* (NIS in thousands)			Total * [2]
Name	Position	Scope of position[1]	Stake in the Company's equity	Salary	Bonus [3]	Share-based payment	Management fees	Compensation of directors	Fee	Other **	Interest	Rent	Other	
Moshe Wolf [4]	CEO	100 (35)	-	1,354	[5] 405	-	-	-	-	[4] (769)	-	-	-	990
Odelia Ostrovsky [6]	VP Technologies	100 (65)	-	834	160	-	-	-	-	195	-	-	-	1,189
Meir Elberg[9]	VP Technology Development	100 (20)	-	734	133	-	-	-	-	133	-	-	-	1,000
Maxim Naigovazin [7]	VP FrontEnd System Development	100 (20)	-	677	100	-	-	-	-	158	-	-	-	935
Shmuel Gottlieb[8]	COO	100 (35)	-	764	119	-	-	-	-	1	-	--	-	884
Directors[10]	Directors	-	-	-	-	-	-	1,867	-	-	-	-	-	1,867

*The compensation amounts are presented in terms of cost for the Company, including the cost of employment and social benefits, in respect of their tenure in the Company, including the provision of services to Masav.

**Other includes food, clothing, telephone, holiday gift voucher, vehicle, weekend, vehicle maintenance, reimbursement of holiday gift voucher expenses, company vacation, and actuarial differences.

A. Presented below are explanations regarding the details of the compensation in the table:

(1) The scope of position represents the total scope of the officer's position. Some of the officers also serve as officers of Masav, in part-time positions. The figures in parentheses reflect the scope of the officers' positions in Masav.

(2) The figures refer to full time positions. Masav participates in the costs according to the scopes of employment specified in parentheses, under the column "scope of position".

(3) The amounts pertain to a sale bonus and to an annual bonus in respect of in 2019, which were approved and paid in 2020. The financial statements for 2019 include a general (non-specific) provision for an annual bonus in respect of 2020 (hereinafter, jointly: the "**General Provision**"), in accordance with the Company's estimates. (The general provision was not included in the figures in the table).

(4) Mr. Moshe Wolf has served as the Company's CEO since February 2014, in accordance with the terms of the employment agreement which was signed between him and the Company on April 22, 2014. For additional details, see section 8.2.4 in chapter 8 of the prospectus. On December 31, Mr. Wolf announced his wish to step down as CEO of the Company, effective June 30, 2021. The "other" column includes a reduction of actuarial provision for the shortening of the paid non-competition period in exchange of an advance notice, at NIS 0.9 million.

(5) In accordance with the employment agreement, the CEO is entitled to an annual bonus in the amount of up to 8 monthly salaries, in accordance with the Company's compensation policy, subject to the minimum conditions set forth in the compensation policy, and in accordance with the benchmarks and targets which were determined for the Company's CEO, and approved by the Company's Remuneration Committee and Board of Directors (and in respect of Masav's share - by Masav's Board of Directors). Out of the annual bonus, a bonus in the amount of up to 3 monthly salaries may be paid, at the discretion of the Company's Remuneration Committee and Board of Directors. In 2020, targets were established for the purpose of calculating the measurable part of the CEO's bonus, based on the fulfillment of targets involving EBITDA (30%), availability (20%), the work plan (20%), business development plan (20%), new revenue (10%) and capitalizing on opportunities (20%).

(6) Ms. Odelia Moshe-Ostrovsky has been employed in the Company since August 2012, and serves as the Company's CTO (and as Deputy CEO, VP Development and Operations and CTO of Masav), in accordance with the terms of the employment agreement which was signed between her and the Company on August 1, 2012. For additional details, see section 8.2.7 in chapter 8 of the prospectus.

(7) Mr. Maxim Naigovazin has served as the Company's VP FrontEnd System Development since August 1992, in accordance with the terms of the employment agreement which was signed between him and the Company on August 4, 1992. For additional details, see section 8.2.7 in chapter 8 of the prospectus.

(8) Mr. Shmuel Gottlieb has served as the Company's COO since 2014, and is employed in accordance with the terms of the employment agreement which was signed between him and the Company on March 4, 2014. For additional details, see section 8.2.5 in chapter 8 of the prospectus. Mr. Gottlieb stepped down as officer in January 2021 and is expected to leave the Company in September 2021.

(9) Mr. Meir Alberg has been employed in the Company since January 15, 2016, and serves as the Company's VP Technology Development in accordance with the terms of the employment agreement which was signed between him and the Company on December 21, 2015. For additional details, see section 8.2.8 in chapter 8 of the prospectus.

(10) The specified amount refers to compensation which is given to directors, and the associated expenses, which do not deviate from the standard practice. The foregoing amount represents the total amount that was paid to all of the directors together, who served as directors in the Company during the reporting year, and who were entitled to directors' compensation, according to the standard practice. Until August 30, 2019, the Company paid to directors (who are not directors whose tenure on the Board of Directors was proposed by the banks) annual compensation in the amount of NIS 70,000, as well as compensation for participation

in meetings in the amount of NIS 3,000 per meeting, and reimbursement of travel expenses. In accordance with the decision of the Company's Remuneration Committee and Board of Directors on November 27 and December 16, 2018, respectively, beginning from the date of appointment of an outside director In accordance with the Companies Law in the Company (which is September 1, 2019), the annual compensation and compensation for participation in meetings for an outside expert director in the Company will be the maximum possible amounts of compensation for an expert outside director, in accordance with the Fourth Addendum to the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 5760-2000 (the "Regulations"), as they stand from time to time, in accordance with the Company's grade, as stated in the First Addendum to the Regulations, as they stand from time to time. Insofar as a director does not meet the required conditions to be classified as an "expert outside director" pursuant to the regulations, the director in question will be entitled to the max possible amounts of compensation as prescribed in the Second Addendum and in the Third Addendum to the Regulations.

B. Receipts and compensation vis-à-vis Masav:

Presented below are details regarding the reimbursement of expenses and the participation in expenses, in accordance with the charging agreement vis-à-vis Masav, as specified in section 6.17.4 of the prospectus, and the mutual settling of accounts in respect of investments in property, plant and equipment:

	Reimbursement of expenses which were received by Masav (in thousands of NIS)	Participation in expenses which were paid to Masav (in thousands of NIS)
2020	15,059	4,775

C. Information regarding the Company's compensation policy:

For information regarding the Company's compensation policy, as approved on November 11, 2018, effective from June 12, 2019 to June 11, 2024, see Note 8.B to the financial statements, and see also Section 8.1 and Annex B to Chapter 8 of the prospectus.

Regulation 21A: The corporation's controlling shareholder

The Company has no controlling shareholder.

Regulation 22: Transactions with the controlling shareholder or in which the controlling shareholder has a personal interest

As stated above, the Company has no controlling shareholder. It is noted that section 8.3 in chapter 8 of the shelf prospectus it issued on May 27, 2019, dated May 28, 2019 (Ref. no. 2019-01-044844) (hereinafter: "the Prospectus"), as a precaution, and notwithstanding the fact that the Company does not consider the banks to be controlling shareholders, included details regarding transactions of the Company with the banks, or in which the banks have a personal interest.

Regulation 24: Securities held by interested parties of the corporation as of proximate to the publication date of the report

For details regarding holdings of interested parties in the Company as of proximate to the reporting date, see the Company's immediate report regarding the list of interested party holdings dated January 3, 2021 (reference number 2021-01-000303), whose contents are included herein by way of reference.

Regulation 24A: The Company's registered capital and convertible securities as close as possible to the reporting date

	Registered share capital			Issued share capital		
	Total	Not including voting rights	Not including any rights	Total	Not including voting rights	Not including any rights
Number of shares	1,000,000,000,000	-	-	40,000,000	-	-

Regulation 24B: Register of the Corporation's shareholders

For details regarding the Company's registered and issued capital, and regarding the Company's register of shareholders, see the Company's report dated June 6, 2019 (reference number 2019-01-048531), whose contents are included herein by way of reference.

Regulation 25A: The Company's registered address and contact methods

Registered address: 26 HaRokmim St., Holon
Telephone number: 03-5264640
Fax number: 03-5253380
Email: irit@shva.co.il
Website: www.shva.co.il

Regulation 26: Directors in the Company

Name:	**Shalom Bisteri, Chairman of the Board**
ID number:	054873328
Date of birth:	28.06.1957
Address for service of process	6 Harold Varmus St., Rishon Letzion
Citizenship	Israeli
Membership in board committees:	Technology and Innovation Committee, CEO Section Committee
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Has professional qualifications
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	Director in Leumi Capital Market Services Company.
Commencement date of tenure as a director:	04.02.2014; Serves as Chairman of the Company beginning on June 18, 2018.
Education:	MBA (Finance) from Bar Ilan University, Bachelor's degree in Economics from Ben Gurion University, LLB from Shaarei Mishpat College
Activity during the last five years and details of other corporations in which they serve as a director:	Head of infrastructure and operations division at the Leumi Technologies division of Bank Leumi. Director in Leumi Capital Market Services Company.
Relative of another interested party of the Company:	No

Name:	**Ester Levy**
ID number:	056131022
Date of birth:	13.11.59
Address for service of process:	6 Kehilat Venetzia St., Tel Aviv, 6940010
Citizenship:	Israeli
Membership in board committees:	Audit Committee, CEO Selection Committee
Independent or outside director:	Yes
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise and professional qualification
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	February 11, 2018
Education:	MBA (Finance) from Tel Aviv University, Licensed C.P.A. (ISR) B.A. in Economics and Accounting from Tel Aviv University
Activity during the last five years and details of other corporations in which they serve as a director:	Financial and business advisor at Iman I.B. Properties Ltd. Serves as an outside director in Ten Oil Company Ltd., as an outside director in Nissan Medical Industries Ltd., Hiron Ltd., and as a director in ACUM Ltd.
Relative of another interested party of the Company:	No

Name:	Zeev Zohar
ID number:	057805046
Date of birth:	23.07.1962
Address for service of process:	18 Namirover St., Tel Aviv 69713
Citizenship:	Israeli
Membership in board committees:	Audit Committee Chairman, Remuneration Committee, Merger Committee
Independent or outside director:	Yes
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	August 30, 2016
Education:	M.A. in Philosophy, Science and Digital Culture from Tel Aviv University, continued studies in Accounting from Tel Aviv University, Licensed C.P.A. (ISR) BA in Accounting and Economics, Tel Aviv University
Activity during the last five years and details of other corporations in which they serve as a director:	Partner at Zohar Gold Net Savings Director and owner of Y. Tomer Zohar Ltd. Outside director in Kav Manche Ltd., director in Y. Tomer Ltd. and Yifat Zohar Ltd
Relative of another interested party of the Company:	No

Name:	Ehud Wiesner
ID number:	022957088
Date of birth:	15.10.1967
Address for service of process:	18 Ezra VeNehemia St., Petach Tikva 4930913
Citizenship:	Israeli
Membership in board committees:	Remuneration Committee, Merger Committee
Independent or outside director:	Yes
Accounting and financial expertise or professional qualifications:	Has professional qualifications as well as accounting and financing expertise.
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	N/A
Commencement date of tenure as a director:	February 1, 2018
Education:	MBA (Information Systems and Marketing) from Bar Ilan University

	Bachelor's degree in Electrical Engineering (Computer Engineering Track), Technion
Activity during the last five years and details of other corporations in which they serve as a director:	Manager of the retail innovation division at Shekel Brainweigh Ltd. Manager of the software division at Efcon Monitoring and Automation Ltd. Joint CEO of Productivity Ltd (strategic consulting, marketing, managerial, business and entrepreneurship), former volunteer member of Petach Tikva City Council. Director in Netzer HaSharon Ltd., director in Balalan - Data Processing Office founded by the Jewish Agency Ltd.
Relative of another interested party of the Company:	No

Name:	**Shai On**
ID number:	057963779
Date of birth:	13.10.1962
Address for service of process:	1 Simtat Hayerek St., Hod HaSharon, 4526470
Citizenship:	Israeli
Membership in board committees:	Technology and Innovation Committee Chairman, CEO Selection Committee
Independent or outside director:	Yes
Accounting and financial expertise or professional qualifications:	Has professional qualifications
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	January 21, 2018
Education:	MBA (Marketing and Information Systems) from Tel Aviv University, B.A. in Economics and Computer Science, Bar Ilan University
Activity during the last five years and details of other corporations in which they serve as a director:	Chairman and Founder of Fireglass Ltd. (information security solution). President and Chairman of Achilles Security Ltd.
Relative of another interested party of the Company:	No

Name:	**Sharon Haran**
ID number:	028958650
Date of birth:	16.11.1971
Address for service of process	30 HaTzanhanim St., Givatayim
Citizenship	Israeli
Membership in Board of Directors committees	Technology and Innovation Committee, CEO Selection Committee
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	1.11.2019
Education:	MBA (Finance and Marketing) from Tel Aviv University, B.A. in Management and Economics, Tel Aviv University,
Activity during the last five years and details of other corporations in which they serve as a director:	CEO of PassportCard, Business Development Manager at Direct Insurance Financial Investments Ltd., division manager at Partner Ltd., Chairman of the Board of Gaat Sharon Management and Investments Ltd., director in Keepit Ltd., director in S.M. Storage Solutions Ltd.
Relative of another interested party of the Company:	No

Name:	**Jacqueline Natalie Strominger**
ID number:	017586751
Date of birth:	05.02.1971
Address for service of process	8 Bareli St., Tel Aviv
Citizenship	Israeli
Membership in Board of Directors committees	Audit Committee, Chairman of Remuneration Committee, Merger Committee
Independent or outside director:	Yes
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	12.11.2019
Education:	MBA from Tel Aviv University, Master's degree in Public Policy from Tel Aviv University, Bachelor's degree in Management in Economics, Tel Aviv University,
Activity during the last five years and details of other corporations in which they serve as a director:	Founder and CEO of Hishtalmuti, outside director in the Study Fund for Microbiologists and Chemists and in the Compensation Fund for Employees of El Al Airlines. Managing member of the administration of the Amitim veteran pension funds, members.
Relative of another interested party of the Company:	No

Name:	**Yossi Levi**
ID number:	051672855
Date of birth:	24.90.1952
Address for service of process	5 Eilot Rd., Ganei Tikva
Citizenship	Israeli
Membership in Board of Directors committees	No
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise and professional qualification
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	None
Commencement date of tenure as a director:	1.1.2021
Education:	
Activity during the last five years and details of other corporations in which they serve as a director:	

Relative of another interested party of the Company:	No

Name:	**Shani Federman-Terem**
ID number:	021716808
Date of birth:	18.7.1985
Address for service of process	21/4 Shivtey Yisrael St., Modiin
Citizenship	Israeli
Membership in Board of Directors committees	No
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Professional qualification
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the Company:	Head of Payments and Credit Cards at Discount Bank Ltd
Commencement date of tenure as a director:	1.11.2020
Education:	BA in Economics and Business Administration, the College of Management Academic Studies; MA in Business Administration, majoring in Finance and Banking, from the Hebrew University in Jerusalem.
Activity during the last five years and details of other corporations in which they serve as a director:	Head of Payments and Credit Cards at Discount Bank (from 2019), Head of Technology Investment and Real Estate Prioritization at Bank Discount (2017-2019), Head of Debt and Issuances at the Accountant General Division (2016-2017).
Relative of another interested party of the Company:	No

<u>Directors who ceased to serve in the reported year and through the date of issuing this report:</u>

Mr. Elik Etzion, who began serving as director of the Company on May 10, 2018, stepped down on December 31, 2020.

Regulation 26a: The Corporation's executive officers

* Mr. Moshe Wolf, CEO of the Company, is expected to step down on June 30, 2021, unless this date is pushed forward. For more information, see immediate report issued by the Company on December 31, 2020, Ref. no. 2020-01-143436).

Name:	**Moshe Wolf ***
ID number:	054170899
Date of birth:	13/12/1957
Position in the Company, in a subsidiary or in an interested party:	CEO (of the Company and of Masav)
Relative of another officer or interested party of the Company:	No
Education:	EMBA from The Hebrew University; MA in Mathematics from Bar Ilan University; BA in Mathematics from Bar Ilan University.
Business experience in the last five years:	CEO of the Company and of Masav
Tenure commencement date:	1.2.2014

Name:	**Odelia Moshe-Ostrovsky**
ID number:	033211434
Date of birth:	05/09/1976
Position in the Company, in a subsidiary or in an interested party:	VP Technologies (CTO) (as well as Deputy CEO and VP Development, Operations and Technology (CTO) of Masav
Relative of another officer or interested party of the Company:	No.
Education:	MBA from Bar Ilan University; Master's degree (+thesis) in Computer Science from Tel Aviv University; Bachelor's degree in Computer Science from the Academic College of Tel Aviv-Yafo
Business experience in the last five years:	CTO (and CTO of Masav)
Tenure commencement date:	1.8.2012

Name:	Meir Alberg
ID number:	038251161
Date of birth:	04/12/1975
Position in the Company, in a subsidiary or in an interested party:	VP Technology Development
Relative of another officer or interested party of the Company:	No
Education:	Bachelor's degree in Mathematics and Computer Science from Ben Gurion University.
Business experience in the last five years:	CEO and CTO of Bluesea Software.
Tenure commencement date:	15.1.2016

Name:	Gadi Margalit
ID number:	028029759
Date of birth:	13/11/1970
Position in the Company, in a subsidiary or in an interested party:	VP Infrastructure (in the Company and Masav).
Relative of another officer or interested party of the Company:	No
Education:	B.Sc. in Science from The Open University
Business experience in the last five years:	Infrastructure Manager in Shva and Masav, Information security and cybersecurity manager at Shva and Masav. Information security consultant at Comsec, self-employed in the field of computer services.
Tenure commencement date:	02/2019

Name:	Maxim Naigovazin
ID number:	308676873
Date of birth:	08/06/1964
Position in the Company, in a subsidiary or in an interested party:	VP FrontEnd System Development
Relative of another officer or interested party of the Company:	No
Education:	MSc in Mathematics from Baku University (USSR)
Business experience in the last five years:	Software engineering manager at Shva
Tenure commencement date:	08/1992

Name:	**Ofer Eden**
ID number:	055643274
Date of birth:	26/01/1959
Position in the Company, in a subsidiary or in an interested party:	CFO (of the Company and of Masav)
Relative of another officer or interested party of the Company:	No
Education:	MBA (Specialization in Finance and Accounting) from Tel Aviv University; Supplementary year in accounting at Tel Aviv University; BA in Accounting and Economics from Tel Aviv University. CPA certified by the Israel CPA Council;
Business experience in the last five years:	CFO of Ilex Group, CFO of Assuta Medical Centers.
Tenure commencement date:	25.12.2017

Name:	**Irit Philip**
ID number:	028075570
Date of birth:	09/11/1970
Position in the Company, in a subsidiary or in an interested party:	VP Legal and Regulation (of the Company and of Masav)
Relative of another officer or interested party of the Company:	No
Education:	E-MBA from The Hebrew University of Jerusalem; LLB from The Hebrew University of Jerusalem.
Business experience in the last five years:	VP Human Resources at Mega Retail Ltd.
Tenure commencement date:	2.7.2017

Name:	**Tamir Rafaeli ***
ID number:	051885093
Date of birth:	13/03/1953
Position in the Company, in a subsidiary or in an interested party:	Customer Relations and Governance Manager (the Company and Masav)
Relative of another officer or interested party of the Company:	No
Education:	MBA (Specialization in Information Systems) from Tel Aviv University; BSE (Specialization in Industrial Engineering and Management) from Tel Aviv University.
Business experience in the last five years:	Development manager at Automatic Bank Services.
Tenure commencement date:	11/2015

* Mr. Rafaeli is expected to step down as officer in March 2021 and leave the Company in June 2021.

Name:	Merav Saror
ID number:	025586397
Date of birth:	20/12/1973
Position in the Company, in a subsidiary or in an interested party:	VP Business Development
Relative of another officer or interested party of the Company:	No
Education:	BA in Business Administration and Economics from Ben Gurion University
Business experience in the last five years:	Business Development Manager, Commercial Division, Verifone
Tenure commencement date:	1.6.2019

Name:	Michal Mizrachi
ID number:	032056657
Date of birth:	10/03/1975
Position in the Company, in a subsidiary or in an interested party:	Comptroller (of the Company and of Masav)
Relative of another officer or interested party of the Company:	No
Education:	MBA (Specialization in Finance and Accounting) from The College of Management Academic Studies; Supplementary year in accounting at The College of Management Academic Studies; B.A. in Accounting and Business Administration, The College of Management Academic Studies. CPA certified by the Israel CPA Council;
Business experience in the last five years:	Accountant at Shva, manager of the accounting and analysis department at Hermetic Trust (1975) Ltd.
Tenure commencement date:	23.6.2019

Name:	Chen Haryati
ID number:	200337673
Date of birth:	12.6.1988
Position in the Company, in a subsidiary or in an interested party:	Internal Auditor (of the Company and Masav)
Relative of another officer or interested party of the Company:	No
Education:	Bachelor's degree in business administration, majoring in Accounting and Information Technology, from the Ono Academic College; CPA by the Israel Auditors' Council; Graduated a course on management of cyber security technologies and methodologies (CISC) from See-Security college; A Certified Information Systems Auditor (CISA) and Certified Data Privacy Solutions Engineer (CDPSE) from ISACA in the US; Certified data analyst (CSA) from the Israel Chamber of Information Technology.
Business experience in the last five years:	Internal Auditor of the Company and Masav; IT Audit and Financial Audit Manager at El Al Israel Airlines; Member of Strategy Committee and Chairman of Young Internal Auditors' Forum and member of IAA Israel – Institute of Internal Auditors; Board member at ISACA Israel (the Israeli chapter of a global organization for information security and audit).
Tenure commencement date:	1.9.2020

Note that until August 31, 2020, Mr. Ilan Hammel served as (temporary) Internal Auditor of the Company (external).

Executives (other than directors) who ceased serving during the reported year and through the date of issuing the report:

Mr. Shmuel Gottlieb served until January 31, 2021 as VP Operations, and is expected to leave the Company in September 2021.

Ms. Keren Zitzer Maletzki served until February 28, 2021 as Deputy CEO and VP Products and Customers of the Company.

Regulation 26B: Number of independent authorized signatories

As of the present date, the Company has no independent authorized signatories.

Regulation 27: The Company's accountants

Beginning on August 17, 2020, Kesselman & Kesselman (PwC Israel) of 25 Hamered St. Tel Aviv serves as the independent auditors of the Company.
Until August 16, 2020, Horowitz, Idan, Sabo, Tevet, and Cohen Tabach (Baker Tilly), of 11 Menachem Begin Rd., Ramat Gan served as the independent auditors of the Company.

Regulation 28 change in Company memorandum or articles

On November 2, 2020, the general meeting of shareholders approved an amendment of the Company's articles of association regarding the chairman of the general meeting, such that in addition to the Chairman of the Board or a director appointed as such, an executive appointed by the Board is able to serve as chairman of the general meeting. For more information, including a call of a general meeting issued by the Company on September 21, 2020 (Ref. no. 2020-01-103491), the information in which is brought here by way of reference, and immediate report issued by the Company on February 11, 2020 (Ref. no. 2020-01-109324).

Regulation 29: Recommendations and resolutions of the board of directors

A. **Resolutions of the board of directors**
During the reporting year, recommendations of the directors were not presented to the meeting, and no resolutions were passed by the directors which did not require the meeting's approval regarding issues specified in the regulation.

B. **Resolutions of the general meeting which were passed in a manner which was not in accordance with the directors' recommendations**
During the reporting year, no resolutions were passed by the general meeting in a manner which was not in accordance with the directors' resolutions.

C. **Resolutions of special general meeting**
On November 2, 2020, the general meeting on shareholders approved the appointment of Mr. Shai On and Mr. Ehud Wiesner as external directors, in compliance with the Proper Conduct of Banking Business Directive 301 (by proposal of the Committee for Appointment of Directors in Banking Corporations (hereinafter - "the Committee")), the appointment of Ms. Ester (Eti) Levi (according to proposal of the Committee); Mr. Shlomo Bisteri and Mr. Yossi Levi as directors of the Company, and the amendment of the Company's articles of association (the amendment includes a change in Article 22 regarding the chairman of the general meeting, such that in addition to the Chairman of the Board or a director appointed as such, an executive appointed by the Board is able to serve as chairman of the general meeting). For more information, including a call of a general meeting issued by the Company on September 21, 2020 (Ref. no. 2020-01-103491), the information in which is brought here by way of reference

Regulation 29A: Details regarding the Company's resolutions

Letter of indemnity and release for directors and officers

On July 7, 2014 the general meeting of the Company's shareholders approved the provision of a letter of indemnity towards directors in the Company, according to a standard wording of the letter of indemnity. The letter of indemnity was given in respect of liabilities and expenses, in accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the "**Companies Law**"), in connection with a series of events (grounds for indemnification) which were specified in the letter of indemnity.
The maximum amount of indemnification which the Company could pay to all of the aforementioned officers, cumulatively, according to the letter of indemnity, will not exceed an amount equal to 25% of the Company's equity, in accordance with the Company's last financial statements which were published before the approval date of the letter of indemnity. The aforementioned general meeting of the Company's shareholders also decided to allow granting a release, in advance, to the Company's officers (who hold office in the Company from time to time), each of them separately, from their liability for damage incurred due to a breach of their duty of care towards the Company, except in case of: (A) breach of the duty of care deliberately or rashly, except if done negligently only; and (B) breach of the duty of care of directors regarding a "distribution", as defined in the Companies Law. In May 2019, the Company's Remuneration Committee, Board of Directors, and general meeting of shareholders approved an update to the letter of release and indemnity, and an update to the list of events (grounds for indemnification) specified in the letter of indemnity.

Directors and officers insurance

On October 2, 2018, after accepting the recommendation of the Company's Remuneration Committee and Board of Directors, the general meeting of the Company's shareholders approved an update to a framework agreement authorizing the Company, in advance, to purchase an insurance policy to cover the liability of directors and other officers of the Company (D&O insurance) from time to time, without requiring additional approval from the general meeting, subject to the terms which were specified in the resolution:

A. The Company's engagement in an insurance policy for directors and other officers (hereinafter: "**Annual Policy**") will be made in respect of several insurance periods, beginning from the end of the current insurance policy on the date of the resolution (December 31, 2018), until (no later than) the end of the policy period which will be renewed in 2023.
B. The annual policy may be purchased by extending and/or renewing the policy, or by purchasing another policy, if necessary;
C. The Remuneration Committee, and later the Board of Directors, will approve each purchase of an annual policy, and will approve that the annual policy is in accordance with the Company's compensation policy which is in effect as of the approval date;
D. The Remuneration Committee and the Board of Directors will approve, in connection with any purchase of an annual policy, that its conditions are reasonable, and in favor of the Company, in consideration of the exposures of the officers and the Company, the scope of coverage, and market conditions, subject to the fulfillment of the following conditions:
   - The liability limit of the annual policy will not exceed USD 15 million per event and per annual insurance period (plus reasonable legal expenses), plus the annual rate of the USD's devaluation vs. the NIS (if any), beginning from the date of the general meeting's approval;
   - The annual premium in respect of the annual policy will not exceed a total of USD 45,000, plus up to 15% each year, and up to an annual premium which, in any case, will not exceed USD 90,000.
     To authorize the Company to increase the current annual policy to a liability limit of USD 15 million immediately. The premium in respect of the increased liability limit for the current annual policy (with a liability limit of USD 5 million) will not exceed a total of USD 20,000.

In accordance with the above, in July 2020, the Company engaged in an annual insurance policy (through June 30, 2021), with a liability limit of up to USD 15 million, per event and per period. The deductible amounts to a total of USD 50-100 thousand. The annual premium in respect of the policy amounts to a total of approximately USD 63 thousand.

Annual report on the effectiveness of internal control over financial reporting and disclosures in accordance with Israeli Regulation 9b(a)

Management, under the supervision of the board of directors of Automated Bank Services Ltd. ("the Company"), is responsible for planning and maintaining adequate internal control over financial reporting and disclosure in the Company.

For that purpose, members of management are:

1. Moshe Wolf, CEO.

2. Ofer Eden, VP Finance CFO.

Internal control over financial reporting and disclosure consists of the Company's existing controls and procedures that have been planned by the CEO and the most senior officer in finance or under their supervision, or by those performing those roles in practice, under oversight of the Company's Board of Directors, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in compliance with applicable laws, and to ensure that all information that the Company is required to disclose in the reports issued under law is collected, processed, summarized and reported in a timely manner and according to the format prescribed by law.

Among other things, internal control includes controls and procedures planned to ensure that all information that the Company is required to disclose as above is gathered and transferred to the Company's management, including the CEO and the most senior officer in finance, or the equivalent acting officers, in order to allow decision making on a timely basis with respect to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misstatements or omissions of information in the reports will be prevented or detected.

Management, under the Board of Directors' supervision, has tested and assessed the Company's internal control over financial reporting and disclosure and its effectiveness.

The assessment of the effectiveness of internal control over financial reporting and disclosure performed by management, under oversight of the Board of Directors, consisted of the following:

1. Updating the scoping document for 2020, which was used to identify the relevant business units and processes that are highly significant to financial reporting and disclosure, as follows: (1) controls over the revenue process; (2) controls over the payroll process; (3) controls over the cash and investment process; (4) controls over the related party process; (5) controls over the actuary process.

2. Additionally, the following internal control components were included: entity-level controls (ELC), including controls over the preparation and close of financial reporting and IT general controls (ITGCs).

Based on the assessment of effectiveness performed by management, under oversight of the Board of Directors, the Company's Board of Directors and management have concluded that the Company's internal control over financial reporting and disclosure as of December 31, 2020 is effective.

Attached below are declarations by managers under Regulation 9b(d)(1) and (2) to the Reports Regulations.

Annual report on the effectiveness of internal control for the Quarter Ended December 31, 2020

Declaration by the General Manager pursuant to Regulation 9B(d)(1)

I, Moshe Wolf, declare that:

(1) I have reviewed the quarterly report by Automated Bank Services Ltd. (hereinafter: "the Company") for the 2020 (hereinafter "the reports");

(2) To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of any material fact required for the representations made therein, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.

(3) Based on my knowledge, the financial statements and other financial information included in the report fairly present, in all material respects, the financial position, results of operations, and cash flows of the corporation as of the dates and for the periods presented in the reports.

(4) I have disclosed to the corporation's Independent Auditor, Board of Directors and to the Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -

(b) Any fraud, whether or not material, involving the General Manager or any of the direct reports thereof, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure.

(5) I, on my own or with others at the corporation:

(a) Have set controls and procedures or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation is brought to my attention by others at the Company, and specifically during preparation of the reports; and -

(b) Have set controls and procedures or verified that controls and procedures have been put in place and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally accepted accounting principles.

(c) I assessed the effectiveness of internal control over financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of internal control as of the date of the reports.

The foregoing may not detract from my statutory responsibility, or that of any other person, under any law.

March 25, 2021

Moshe Wolf
CEO

Annual report on the effectiveness of internal control for the Quarter Ended December 31, 2020

Declaration by the senior financial officer pursuant to Regulation 9B(d)(1)

I, Ofer Eden, declare that:

(1) I have reviewed the quarterly report by Automated Bank Services Ltd. (hereinafter: "the Company") for the 2020 (hereinafter "the reports");

(2) To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of any material fact required for the representations made therein, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.

(3) Based on my knowledge, the financial statements and other financial information included in the report fairly present, in all material respects, the financial position, results of operations, and cash flows of the corporation as of the dates and for the periods presented in the reports.

(4) I have disclosed to the corporation's Independent Auditor, Board of Directors and to the Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -

(b) Any fraud, whether or not material, involving the General Manager or any of the direct reports thereof, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure.

(5) I, on my own or with others at the corporation:

(a) Have set controls and procedures or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation is brought to my attention by others at the Company, and specifically during preparation of the reports; and -

(b) Have set controls and procedures or verified that controls and procedures have been put in place and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally accepted accounting principles.

(c) I assessed the effectiveness of internal control over financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of internal control as of the date of the reports.

The foregoing may not detract from my statutory responsibility, or that of any other person, under any law.

March 25, 2021

Ofer Eden
VP Finance CFO