shva
The payments arena

Periodic Report
For the Year Ended
December 31, 2022

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.

PART A

Description of the Corporation's Business for 2022

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1. **Terms**

In this chapter, the following terms will have the meanings ascribed next to them:
"**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, 2022.
"**Periodic report for 2021**" **-** The Company's periodic report for 2021 which was published on March 30, 2022 (reference number: 2022-01-039127).
"the Company" and/or Shva"**-** Automated Banking 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), -2017;
"**Commissioner**" **-** The Competition Commissioner;
"**Supervisor**" **-** The Supervisor of Banks at the Bank of Israel;
"**Governor**" **-** The Governor of the Bank of Israel;
"**Joint Service Company**" – as defined in the Banking Law (Licensing)
"**Banking Law (Licensing)**" **-** The Banking Law (Licensing), -1981;
"**Companies Law**" **-** The Companies Law, -1999.
"**Payment Systems Law**" **-** The Payment Systems Law, **-**2008;
"The Securities Law" **-** The Securities Law, -1968;
"**Competition Law**" **-** The Economic Competition Law, -1988;
"**Payment Services Law**" **-** Payment Services Law – 2019;
"**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 28, 2023;
"**ATM**" – Automated Bank Machines or Automated teller machines (ATM) are 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**" – a system that performs the settling of accounts between issuers and Clearing Customers;
"**Settlement interface**" **-** a system that performs clearing directly in the Zahav system operated by the Bank of Israel, through the SWIFT system;
"**Issuer**" **-** An entity issuing charge cards to consumers;
"**Masav**" **-** Bank Clearing Center Ltd.; A banking corporation which is a joint service company operating controlled payment system for transferring funds between bank accounts;
"**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;
"**ATM system**" **-** A system used to provide confirmation and accounting services for cash withdrawal operations;
"**Zahav system (credit and transfers in real time)**" **-** a payment system for the intraday clearing of real-time payments (RTGS) operated by the Bank of Israel;
"**Controlled payment system**" – as defined in the payment system law

[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.

"**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);
"**Hotam**" – payment and clearing systems of the Bank of Israel;
"**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 from the charge card issuer;
"**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;
"**ON US transaction**" **-** A transaction carried out at a business for which the entity that provides clearing services for the card where the transaction is carried out is also the issuer of the card through which the transaction was carried out;
"**Transaction**" **-** A charge card purchase transaction performed by a consumer with 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;
"Income Tax Ordinance" – Income tax ordinance (New Version) – 1961.
"**Additional Corporate Information**" – Chapter D to the 2022 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 by NFC technology allowing the performance of a transaction without entering the card to the terminal and entering a code (Contactless).
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).
"**CLP**" **-** (Close Loop Payment) an authorization interface that will go directly from the business to the company through the solution operator/club operator for the purpose of approving charge card transactions.

[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.

1.1. The description of the corporation's business contained in this chapter was prepared, among other things, taking into account the position of the Securities Authority on the subject of shortening the reports as it has published.

1.2. The information presented below and the Company's estimates are based, inter alia and as the case may be, on the publications of the Central Bureau of Statistics, data of the Bank of Israel and/or other data and/or studies.

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 whose shares are traded on the Tel Aviv Stock Exchange 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), -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 entities 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 entities 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 sections 8.1.2- 8.1.3 below. The credit card companies Isracard, CAL and MAX IT Finances Ltd. (**MAX**) participate in the system as companies performing issuance and clearing. Isracard, CAL and Max will be collectively referred to below as: "**the credit companies**" or "**the credit card companies**"). In April 2017 and march 2018, BOI granted clearing license to two additional companies – Tranzila Ltd. and Cardcom Clearing Ltd. (Cardcom; Cardcom and Tranzila collectively: (**the new clearing entities**) which joined as participants in the system.

3.2.2. Management and operation of the clearing interface of the charge card system **-** for the purpose of calculating the net activity, i.e. the final accounting between the issuer and the clearing entity for charge card activity in businesses, the system receives from the clearing entities the transactions that were not issued by them, and offsets the credit amounts between them, offsetting the cross commission. At the end of the calculation, credit/debit files are produced for the relevant parties. During the second quarter of 2023, these files will be deposited in the Zahav system, for direct clearing. For more details, see section 8.1.3 below.

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 One Zero Digital Bank Ltd. ("**The Digital Bank**) (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**"). On March 15, 2021, a license to provide deposit and credit services was granted to Ofek Cooperative Credit Society Ltd. (hereinafter: "**Ofek Credit Society**") by the Capital Market, Insurance and Savings Authority. The validity of the license was extended until December 31, 2024. Ofek Credit Society is planned to connect to the Company's ATM switch by the end of 2023.For more information, see section 8.1.4 below.

3.2.4. In accordance with the instructions of the Bank of Israel, the Company is expected to begin providing management services and operation of the ATM accounting interface during the second quarter of 2023. For the purpose of calculating the net activity between issuers and ATM operators for cash withdrawals, the ATM operators will transfer files containing the cash withdrawals made with cards of other banks or non-bank issuance operators. At the end of the calculation, the system will generate credit/debit files that will be sent to the relevant parties at the same time as they are deposited in the Zahav system operated by the Bank of Israel, for the purpose of direct clearing. For more details, see section 8.1.4 below.

3.2.5. 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, including internet websites. 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.

3.2.6. Membership in the association for managing EMV terminals protocol in Israel – the Company is active in the association and promotes changes to improve the payment systems in Israel. For more information, see section 8.1.5 below.

3.2.7. Tests to approve POS devices (Point of sale) or Pin Pad devices in the EMV system - for the purpose of starting the operation of new devices in businesses, the Company performs testing services to confirm the operation of the devices according to the EMV protocol. For more details, see section 8.1.6 below.

3.2.8. 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 8.1.7.

3.2.9. Services for discounting companies - the Company provides a service for discounting companies that offer advance payments to businesses for the transactions carried out at the terminals placed in the businesses. For more details, see section 8.1.8 below.

3.2.10. Service for adjustment companies - the Company provides information services to adjustment companies that perform a comparison between the data that is transferred to it from the Company and the credits that the business receives from the clearing entities at the terminal. For more details, see section 8.1.9 below.

3.2.11. DS3 service - the Company offers a service for identifying charge card holders in internet transactions, for the purpose of reducing fraud and denials. For more details, see section 8.1.10 below

3.2.12. For details regarding the services provided by the Company and its area of activity see section 8.1 below and Note 1a of the financial statements as of December 31, 2022 included in Chapter C to this report (**the Financial Statements**).

3.2.13. For details regarding restrictions on the scope of operating areas by virtue of the exemption that was given by the Commissioner on December 28, 2022, see Note 17 to the financial statements and section 8.3.2 below.

4. **<u>Investments in the Company's equity and transactions involving its shares</u>**

4.1. Changes in the Company's equity

4.1.1 On December 30, 2021, the Company's Board of Directors approved the grant of 792,652 convertible options to ordinary shares of NIS 0.0001 par value of the Company, to the CEO and officers and employees of the Company. On February 13, 2022, the Company's general meeting approved the grant of options to the CEO of the Company. For further details, see the summons report for convening a meeting published by the Company on January 6, 2022 and the report of the meeting results published by the Company on January February 13, 2022 (reference number: 004030-01-2022 and 017836-01-2022, respectively), the information therein is included by way of reference).

For additional details, see Note 14 to the financial statements below.

5. Dividend distribution

For information regarding limitations on dividend distributions and dividends distributed see Note 14 to the financial statements

5.1. Dividend distribution policy

5.1.1. 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 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, as specified in this section 5 above, and the provisions of the Company's articles of association.

5.1.2. 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.

5.1.3. 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.

5.2. The balance of distributable earnings according to the profit test in the Companies Law, as of December 31, 2022, is approximately NIS 193 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 2022 and 2021:

	2022	2021
Total revenues of the segment (1)	117,283	110,408
Payroll and associated expenses	46,776	39,150
Other expenses, net, excluding depreciation and amortization	17,824	14,375
Total costs, excluding depreciation and amortization	64,600	53,525
Operating profit before depreciation and amortization	52,683	56,883
Depreciation and amortization	6,852	6,553
Results of the segment (operating profit)	45,831	50,330
Assets of the segment (2)	78,344	60.623
Liabilities of the segment (3)	41,478	34,513

(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, right of use assets 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, 2022 and 2021, to a total of NIS 175,582 thousand and 180,698 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 lease liabilities, expenses payable in respect of payroll and related expenses, trade payables, and other operating liabilities.

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

Trends and/or events and or various developments

General

The payment market in which the Company operates is dynamic, developing and growing at an accelerated pace in recent years. This is reflected, among other things, in frequent and substantial changes in the competitive and business environment as a result of the implementation of various regulatory reforms, technological developments and global developments, in joining of international players and fintech companies and a significant increase in the number of local players in the payment market ecosystem. To the best of the Company's knowledge, the Company is not exposed to substantial competition in its activity sector and is the main supplier of all the services it provides. At the same time, the Company is aware that the changes detailed above, including advanced technological solutions, may change the world of payments and increase the growing competition in the field of payment methods. The Company deals with these changes, among other things, through the following actions: 1) investment and continuous improvement in the Company's technological infrastructure; 2) increasing and expanding the services and products for its clientele; 3) Adapting the Company to the changing environment by constantly and actively challenging the Company's strategy.

Below are factors in the macroeconomic environment that may affect the Company's activity:

7.1. Developments in the economy

Various macroeconomic characteristics and sectoral characteristics, including the growth rate of the economy and the state of the local economy, the inflation rate, private consumption per capita (including disposable income per capita), may affect the Company's activity, among others, as detailed below. According to estimates of the Bank of Israel for 2023, there are increasing signs of a slowdown in the global economy, a slowdown that may also be felt in the Israeli economy. According to the Bank of Israel forecast, the gross domestic product is expected to grow in 2023 and 2024 at rates of approximately 2.8% and approximately 3.5%, respectively, compared to rates of approximately 6.1% and approximately 2.7% in 2021 and 2022 (respectively).

Since it is not possible to predict the length of time in which the current atmosphere will prevail in the global and local macroeconomic situation and especially in relation to the trends in the current consumer goods market that characterized the years 2021 and 2022, it is difficult to estimate the total scope of the direct and indirect economic consequences, in the short, medium and long term of said situation on the Company's activities.

Inflation and interest rates in Israel and throughout the world

Following macroeconomic developments around the world and in Israel that took place in 2022, there was a decrease in growth and an increase in inflation rates. With the goal of curbing inflation and curbing price increases, the central banks of the world, including the Bank of Israel, began to raise the interest rate several times. The Bank of Israel raised the interest rate up to the date of the report at a cumulative rate of 4.25%.

The Company conducts its business in Israel. Therefore, most of its assets, liabilities, income and expenses are in NIS. Fluctuations in the inflation rate in Israel may affect the Company's business results. In 2022, inflation was 5.3% (which is higher than the original forecast of 3% set by the Bank of Israel) compared to 2.8% in 2021 and 0.7% in 2020. According to the Bank of Israel's forecast, inflation rate in 2023 is expected to be 3% and in 2024 inflation is expected to be 2%.

An economic slowdown and recession in the economy, if and to the extent they occur, including as a result of an increase in inflation and/or the trend of increasing interest rates in the economy and/or damage to the scope of consumption, may have a negative effect on the Company as they are factors that harm per capita consumption rates in Israel and which may lead to a decrease in the volume of charge card transactions.

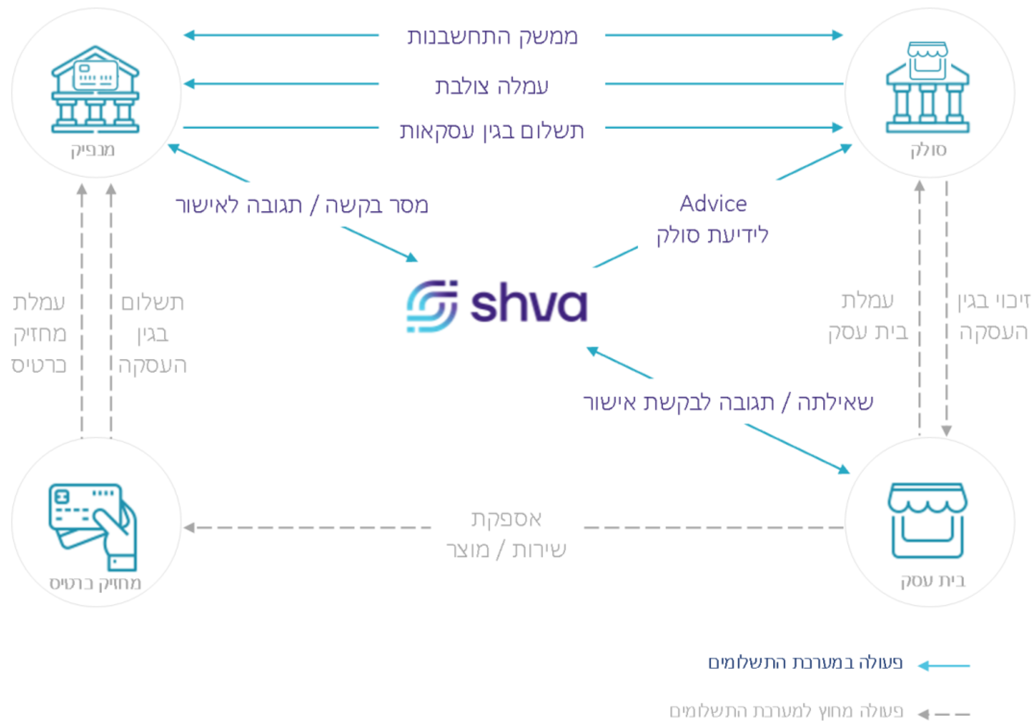
In the Company's estimation, the main impact of the increase in inflation and interest rates will be reflected in the value of the Company's securities held for trading portfolio.

Changes in legislation in Israel

After the period of the report, the Israeli government began taking legislative measures, some of which have already passed the first reading in the Knesset, the purpose of which is to make constitutional changes in the Israeli legal system, which led to a wave of protest in the Israeli public and warnings from economic experts in connection with damage to the Israeli economy, including possible negative consequences for Israel's credit rating, the scope of foreign investments, the value of local currency, financing costs, etc. As of the date of the report, the legislative work regarding the laws included in the constitutional changes has not yet been completed, and the Company is unable to assess whether and how these changes will affect its operations or the Israeli economy.

7.2. Charge card clearing industry

In 2022, the number of transactions (charge and credit transactions) increased compared to 2021 to 2.1 billion transactions in 2022 from 1.9 billion transactions in 2021. The increase stems from the continued recovery of the economy and the growing activity.



The charge card payment system in Israel consists, for the most part, of an issuer, a clearing entity, an international brand/organization (which owns the relevant card brand), a business (the card holder), when the operations accompanying the issuance of the card may be performed by an issuing operator who sometimes is also 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 the 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 and issuer and clearer of credit cards of the MasterCard brand, and an issuer and clearer of credit cards of the Visa brand; (2) Premium 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 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;
(6) Cardcom Clearing Ltd. A company that provides clearing solutions is in the early stages of entering the clearing market and to the best of the Company's knowledge, will clear charge cards from the brands "Visa" and "MasterCard" and "Isracard" 7. Tranzila Ltd. A company that provides clearing solutions is in the early stages of entering the clearing market and to the best of the Company's knowledge, clears charge cards from the "Visa" and "MasterCard" brands.

Other than Cardcom and Tranzila which clear charge cards only, the aforementioned credit card companies in addition to clearing charge cards also engage in issuing. To the best of the Company's knowledge, the activity in this segment has expanded in recent years, inter alia, due to the effects of various factors, the main of which are expansion of the scope of services provided by credit card companies, and the ongoing growth in the use of charge cards. Other reasons for the expansion of the activity in this segment is the enactment of measures intended to reduce the use of cash, the issuance of charge cards, and increase in online purchases and e-commerce applications.

As aforesaid, the market is in material change in payment habits including the transition from cash to credit cards, among others through new payment solutions and the adaptation of the Israeli market to EMV smart debit 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 and supporting the EMV standard. Upon executing a transaction using "smart" card customers are required to identify themselves using a PIN code at a terminal, which allows the performance of transactions wisely and safely and reduce the amount of forgeries and fraud related to charge card transactions in which the card is present (namely, a transaction with physical use of the card). Also the use of the Contactless charging method 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, brings 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 entities and/or issuers in the Company's range of services.

EMV system creates the potential for many new uses, including the possibility of connecting additional entities to the system using the CLP method. In addition, to the best of the Company's knowledge, using this standard increased the use of charge cards due to the use of Contactless terminals, as well as new developments. 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. For further details, see section 8.1.1 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 entities 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.

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 for clearing charge card transactions unless they have been executed through EMV technologies, effective gradually according to the size of the business and the transactions' turnover in charge cards and other characteristics at various dates. As of the date of the report and in accordance with what was stated in the Supervisor of Banks' letter of December 30, 2021, the standard has been fully implemented except for gas stations which received a special exclusion that allowed them to complete the conversion no later than December 31, 2024.

The significance of the above outline is that upon completion of the transition of all businesses to perform transactions using the EMV technology, the Company’s support of the old technology (Ashrait 96 switch) will be discontinued.

The Company is preparing to support implementation as outlined above with full involvement vis a vis of all the parties in the clearing market including: ongoing update of the clearing companies on the progress of converting the terminals under their clearing. Supervision of monitoring the conversion of terminals of Shva Ashrait distributors in businesses that have not yet been converted.
Ongoing reporting to Hotam on the general progress of the economy and implementation of the EMV standard according to the milestones set forth above.

7.3. <u>Significant regulatory changes in the charge card market in Israel</u>

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, working in the regulator's spirit to promote competition that may result in cost reduction, expanding the product basket and making the services accessible to the entire population 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 inputs.

7.4. 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 digital wallets and smartphones instead or in addition to physical charge cards. For additional details see sections 8.6 and 8.9 below.

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

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

7.4.2. 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. 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 - 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. As of April 2021 with the entry of Apple pay into Israel, the Company has seen a significant increase in the use of digital wallets for contactless payment in businesses in Israel, an increase that intensifies with the entry of Google pay during November 2021. The Company's data show that in 2022 the increase trend is continuing rapidly.

7.4.3. 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.

7.4.4. 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.

7.4.5. 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.

7.4.6. Public transportation –The Ministry of Transportation and other entities are promoting solutions which will allow charge card payments on public transportation. From September 2022, the transition from payment by Rav kav to charge cards and payment applications has commenced. In 2022, service amounted to 98,000 new transactions in the system. After the report date, in 2023, the active terminals in Israel rail were certified for using charge cards and as of the report date, 360,000 transactions were conducted in charge cards in the systems of public transportation.

7.4.7. Execution of payments via mobile devices - Technological progress in the development and use of smartphone apps (e.g., Bit, 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. During 2021, two global players dramatically entered the field of digital wallets in Israel: Apple and Google, who launched digital wallets that use charge cards as means of payment, and therefore make use of the Company's products. To the extent that technologies that do not use charge cards are developed, and consequently the Company's products, they may have an adverse impact on the Company's revenues.

On February 24, 2022, Bank Leumi informed its customers that it is closing the PAY application. The bank decided that the payment transfer service will be integrated into Bank Leumi application. This means that as of April 10, 2022, the only ones who will be able to transfer funds using the Leumi app are the bank's customers. In this regard, it should be noted that closing the application does not affect the Company's activities.

7.4.8. Mobile card clearing - development of an application for mobile devices through which payment can be made by attaching a smart credit card and digital wallets with NFC technology. The target audience for the use of this technology are small and tiny businesses that receive payment in cash or through payment transfer applications, where the annual clearing amount is limited. Beyond the advantage of unlimited clearing amount, the transaction will be executed in safer means where the types of possible transactions are more diverse. As of the report date, the Company is unable to assess the impact of the service on the Company's revenues.

7.5. Consumer changes

The technological developments occurring in recent years, as described above, also affect 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 has been increasing. These wallets are, in part, based on charge card payments (and may, in this regard, contribute to growth in clearing amounts), while some are based on direct crediting and debiting of the bank accounts outside of the charge card scheme.

The end consumers expect to receive simple, immediate and fast solutions offering a personal-unique, efficient and personally tailored user experience, sometimes also at a premium cost for using advanced services and means. 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. 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, assessments 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 transactions with charge cards**

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; (2) Approval and collection services and clearing interface; (3) ATM switching services; (4) Development and distribution of Ashrait PC software; (5) tests and certification of POS devices or Pin Pad devices to EMV system; (5) certification of terminals; (7) services to discounting companies; (8) services to adjustment companies; (9) 3DS service; as detailed 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, 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 for purchasing 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 clearing 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**"), and the remaining clearing fee represents the clearing entity's share. The issuer also sometimes collects card fees from cardholders, in respect of the service rendered 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. Banks also function as charge card issuers. Additionally, as stated in section 3.2.1 two companies joined the clearing market Tranzilla and Cardcom, which provide only clearing service. To the best of the Company's knowledge, such 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 (the local agreement). In this regard, it is indicated that to the best of the Company's knowledge, in May 2021, the Hotam notified the banking corporations and the clearing entities, among which is the Company, that it examined the local agreement and found that it should be declared as a controlled payment system. Currently, negotiations are conducted which are led by the Company and BOI with the system participants to formulate decision making mechanism regarding the local agreement. in addition, the Bank of Israel is expected to declare the Company as operator of the local agreement.

It is further indicated in this regard that 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 processing the transaction in the Company.

8.1.2 <u>Connection of terminals to the charge card switch</u>

For proper credit activity at the businesses, the Company manages the authorizations and parameters that enable activity in accordance with the risk management of the clearing entities at the terminal.

With respect to each terminal which is connected to the Company's systems (including terminals at businesses), 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 entities 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 entities during that month (hereinafter: "**Connected Terminals**").

The average number of connected terminals was approximately 270 thousand in 2021 and 256 thousand in 2022.

In addition, in order to perform a secure credit operation in the EMV system, the physical businesses are required to install a charge card reader, an additional hardware component, which enables the identification of the credit card and typing a secret code if necessary.

For each charge card reader, the Company charges a fixed monthly fee for managing and updating the data of the charge card reader, as of the date of the report, in the amount of NIS 4 from each terminal, paid by all clearing entities in the terminal.

The average number of connected charge card readers (Pin Pad) is about 121 thousand charge card readers in 2021 and about 187 thousand charge card readers in 2022. (In 2019 and 2020 the average number of connected charge card readers is 30 thousand charge card readers and 57 thousand charge card readers, respectively)

8.1.3 <u>Transaction approval and collection services and the clearing interface</u>

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, provides to clearing entities terminal management service and transfers to issuers the request for the purpose of receipt of approval and continued handling of the transaction. As part of its activity as a processor, the Company also provides Clearing entities with at-business terminal management services, and performs additional technical actions for Clearing entities 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 entities 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 standing order transactions and low amount transactions, as defined by the clearing entity, in varying amounts from time to time. For quantitative data see section 7.2 below.

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) “On Us Transaction, and (2) 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 to complete a charge card transaction, it is necessary, inter alia, for the issuer and the clearing entity to make a contractual and technological engagement: the contractual engagement 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, electronic transfer of a transaction approval request to the clearing entity and issuer, and 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.

Through the clearing interface, a calculation is made of the total credit and debit for each issuer and clearing entity, in accordance with pre-defined rules as agreed between the parties, in relation to all types of transactions carried out with charge cards at the businesses. The services in the clearing interface are only relevant in cross clearing transactions. The credit and debit data for each issuer and clearing entity, in accordance with the defined rules agreed between the parties, is transferred to each issuer and the settlement of accounts is transferred in files to Masav, which executes the actual payment instructions between clearing entities and the issuers. In accordance with the supervision directives over the payments systems, in the second quarter of 2023, the Company is expected to complete a direct connection to the Zahav system.

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 2021 and 2022 (based on the number of transactions) was an average 2.4 and 2.5 agorot per transaction, respectively.

For details regarding the rules of the "charge card service" system see section 8.13 below.

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 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, as well as a fee per transaction.

The Company even provides the participants of the system with an increased authentication service in telephone transactions that these entities required according to the provisions of the law applicable to them. The use of this service involves a fee according to the price list.

Moreover, as part of all the services that the Company provides to its customers, the Company provides the issuing system participants with a STIP (Stand In Process) service, in the event of communication unavailability on their part, which enables an accurate response on behalf of the issuer and in accordance with his instructions in the event of non-response/availability on his part. The Company is working on constant improvement and accuracy of the mechanism. In addition, the Company allows a response according to business rules defined in advance with the cooperation of the issuer, for the purpose of providing a quick response to the approval requests from businesses.

According to the directive of HOTAM, the Company is required to develop a clearing interface that will provide a solution to the failure settlement as described in section 8.3.5.4 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 for mutual recognition across ATMs operated by them.

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 the various banks in accordance with the mutual recognition agreement, as defined in section 16.2 below. 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. The system participants signed a document of principles that was formulated.

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. Accordingly, in the last two years, the Company has developed a system that is expected to perform account settlement between the ATM operators and the card issuers who use them for cash withdrawals. The Company is expected to start performing the aforementioned account settlement in the production environment during the second quarter of 2023.

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 producers, including the Company, have developed a POS software. The Company has developed the Ashrait PC software program, which is an infrastructure for POS program sold to businesses through distributors and is integrated in software products sold by them to businesses, and which allow the execution of charge card transactions at those businesses. The software includes 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.

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 entities and issuers. In view of the foregoing, the Company has developed and implemented the new protocol in its systems, called EMV protocol (hereinafter: "**EMV Protocol**"), which is a technological interface for the provision of approval and collection services, which is compatible with the EMV standard, and allows the use of advanced payment methods (such as smart cards through the EMV standard, and Contactless payment methods).

According to the requirement of the Commissioner as described in the exemption decision dated September 24, 2017, the Company transferred on July 23, 2020 its entire rights in the protocol to a non-profit association for no consideration. Today, the Company is active in the association for EMV terminals protocol management. For more information, see Note 17 of the financial statements – Chapter C of the 2021 periodic report.

8.1.6 Tests for approval of POS devices or Pin Pad devices for the EMV system

Before marketing a POS device or a Pin Pad device to businesses, the marketer is required to hand over the device to the Company for the purpose of performing acceptance tests and confirming that the device operates according to the EMV protocol. The marketer who carried out developments and tests on his part according to the EMV protocol, hands over a physical device to the company and the company performs tests according to scripts written according to the protocol. After the completion of the tests and confirmation that the device is operating properly and according to the protocol, the device will undergo certification, as detailed in section 8.1.7 below. The use of this service involves a fee according to the company's price list.

8.1.7 Certification of terminals for Ashrait EMV

The Company offers an end-to-end certification service for terminals for the purpose of complying with the EMV standard. The Company performs the service for all clearing companies in the State of Israel.

The certification process takes place between EMV compatible terminal and the international credit card companies (Visa MasterCard, Diners) and is designed to ensure that the application route for approving and collecting credit card transactions complies with the EMV standard from reading the card in the card reader at the terminal through the systems of the clearing entities handling transactions and to the systems of international companies.

The Company begins the certification process only for a terminal that has successfully passed a terminal acceptance testing process aimed at confirming that the terminal has been developed in accordance with the EMV protocol. The use of the terminal acceptance test service and certification of the terminals involves payment in accordance with the Company's rate.

8.1.8 Services for discounting companies

The Company provides a service to discounting companies that offer advance payments to businesses for the transactions carried out at the terminals placed in the businesses. As part of the service, the Company updates the clearing entity at the terminal that the proceeds for the transactions must be transferred to the discounting company (instead of the business), and the discounting company advances the proceeds to the business, in exchange for a commission. The use of this service involves a fee according to the Company's price list.

8.1.9 Service for adjustment companies

The Company provides information services to adjustment companies that perform a comparison between the data that is transferred to it from the Company and between the credits that the business receives from the clearing entities at the terminal. The use of this service involves a fee according to the Company's price list.

8.1.10 <u>3DS service</u>

3DS is a protocol that enables one-to-one verification of private cardholder identification details with credit card holder in online transactions (online) in a way that significantly reduces the ability to commit fraud and denial of transactions. The Company enables the service through a technological connection to an international technology company that performs the risk management tests and returns its answer to the terminal through the Company. The use of the service involves payment in accordance with the Company's rate.

8.1.11 In 2022, the Company signed an agreement and completed a technological connection directly to Mastercard, one of the interested parties in the Company, with the aim of providing value-added services to system participants who are also customers of Mastercard. Currently, the Company is working to develop the services it can offer to customers as part of the cooperation between the companies.

8.2. <u>Structure of the operating segment and changes occurring therein</u>

For details regarding technological changes in the operating segment, see section 7.4 above.

8.3. <u>Restrictions, legislation, standardization, and special constraints which apply to the operating segment</u>

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, 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.

On June 20, 2022, the Company received a notification from the Supervisor of Banks, according to which, with the expiration of three years from the date of cancellation of the Company's license as a joint service company, the period of application of Proper Conduct of Banking Business Directives to the Company has ended.

The Company is also supervised by Hotam by virtue of its status as 'operator of controlled payment systems', pursuant to the Payment Systems Law. In this regard, it should be noted that after the period of the report, on February 28, 2023, the Company was forwarded drafts of Hotam's provisions in the field of corporate governance, including provisions regarding the composition and work of the board of directors and officers, compensation policy, internal audit, risk management, compliance risk management, and financial reports and an accounting audit of a payment system operator. In addition, the Company is supervised by the Securities Authority in accordance with the Securities Law and Regulations and the regulations amended thereunder. 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>

8.3.2. <u>Exemption from approval of a restrictive arrangement – exemption of the competition commissioner dated December 28, 2022</u>

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 December 28, 2022 for a five-year period and through December 28, 2026 (hereinafter: the "**Exemption Decision**").

The exemption refers to several main points:

(a) As part of the exemption decision, the commissioner did not accept the Company's request to cancel the condition which limits the areas of activity permitted and which requires that its entry into any additional area of activity be subject to the approval of the commissioner. Also, the commissioner expressed her position that to the extent that the banks' share in the Company's shares was lower than the current situation, so that each bank's share would not exceed 5%, this was to significantly alleviate the competitive concerns, as per the commissioner's position, and to eliminate the need for this exemption.

(b) Under the exemption the Company may engage in the following areas of activity:

(1) Operation of an ATM switch;
(2) Operation of a charge cards switch and transaction processing and collection systems;
(3) Engagement in activities involving the Ashrait 96 protocol;
(4) Development, operation and distribution of the Ashrait PC software;
(5) End-to-end certification services for the EMV standard;
(6) Activities associated with the aforementioned fields of activity;
(7) Any additional field of activity that may be approved by the Commissioner.

(c) The terms of the services the Company is obligated to provide, including various instructions regarding the conditions for connecting to the Company's systems, as well as instructions regarding activity with manufacturers and the execution of end-to-end certifications to the EMV standard.

(d) Also, the exemption decision stipulates that the Company will publish on its website a rate for each of the services it provides within the Company's systems as defined in the definitions section, as follows: one or more of these: an ATM switch, a charge card switch and a transaction collection and processing system.

8.3.3. Approval of the competition commissioner for the Company to engage in the provision of aggregate information

The foregoing is added to the commissioner approval dated April 25, 2011, in which the Commissioner approved for the Company to engage in providing aggregate information based on the data stored in the Company's databases according to the conditions specified in the exemption decision.

8.3.4. The Company's request to engage in providing a financial information service

Under the conditions established within the Commissioner's exemption decision of September 24, 2017, the areas of activity in which the Company may engage were defined. In addition, the Company was also allowed to engage in any additional field of activity that the commissioner would approve. In accordance with the aforementioned, the Company applied to the commissioner with a request to engage in providing a financial information service in accordance with the Financial Information Service Law, 2021 (hereinafter: "**Financial Information Service Law**"). As part of this request, the Company stated that in its activity of providing information services, it is expected to allow the competitive activity in the field of open banking, by establishing an infrastructure separate from the controlled payment system, which will provide technological back-office services, aggregation services and a link (based on an API interface) between financial service providers (such as fintech companies and other financial entities) to all information sources in Israel (such as banks, credit card companies, institutional bodies, etc.).

After negotiations between the Company and the competition authority, including a conversation of concerns and a hearing, after the report period, on March 12, 2023, the commissioner's decision was made not to approve at this stage the Company's request to engage in the activity of providing a financial information service in accordance with the Financial Information Service Law because the current activity may raise concerns of harming competition. For more details, see the Company's immediate report dated March 13, 2023 (reference number: 2023-01-026226) which includes herein by way of reference.

For further details regarding the decisions of the Competition Commissioner including the separation of the Company and Masav – separation outline see Note 17 to the financial statements. 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 known to the Company as of the reporting date.

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

8.3.5.1. 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 adjusting the Company's corporate governance and oversight mechanisms to Hotam's provisions.

8.3.5.2. 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.

8.3.5.3. 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 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 liquidity risk. After the report date, Hotam issued draft of directives regarding corporate governance and to the best of the Company's knowledge, Hotam intends to issue additional directives, which will affect the Company's activity.

8.3.5.4. 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, 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 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 two years from the publication date for the implementation of the requirement regarding the management of the default arrangement, in light of the fact that the arrangements in question are not currently implemented in the Company's payment systems. The Company was granted an additional extension from BOI until April 2023. The Company is expected to implement the directive in the second quarter of 2023 as detailed in section 8.12 below.

8.3.5.5. The Company completed its self-assessment regarding compliance of its charge card payment system with PFMI principles and devised a work plan to implement gaps.

The Company is preparing for the implementation of the requirements determined by Hotam, and wrote rules for two payment systems under its management in accordance with the international PFMI principles of BIS, which will regulate the activity of each one of the systems separately. In addition, the Company established a committee of participants in the charge card system in accordance with the directives of BOI.

As part of the foregoing, a consultation was held 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 system rules document was sent and signed by the participant's signatures. The rules of the systems were updated in accordance with the provisions of the access conditions and the failure arrangements and were sent to the participants of the systems.

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:

8.3.6. <u>Open banking</u>

In recent years, in-depth regulation has developed around the world that regulates the field of open banking. Open banking in the world allows customers of banks and payment account managers to give access to third parties, to information concerning them which is held by banks and payment financial institutions and to provide payment instructions in their accounts, in order to receive services from those third parties which are tailored to customer needs.

On February 24, 2020, Proper Conduct of Banking Business Directive 368 was published, regarding the implementation of open banking. The directive defines the infrastructure for open banking in Israel, in order to strengthen the customer's control over the financial information relating to him and the method used to perform transactions in his 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.

In November 2021, the Financial Information Services Law was enacted, which authorized the Securities Authority to grant licenses for the provision of financial information services to corporations that meet the requirements determined by law and to supervise such licensees in accordance with the principles set forth in the law. The law settles the entire activity included in providing financial information both on the part of the entities that will provide the service and on the part of the financial entities where the customers' financial information is concentrated. The Company applied to the Competition Authority for approval to engage in the activity of providing financial information service. For further details, see the Company's immediate report dated February 27, 2022 (reference: 2022-01-019740) which is included herein by way of reference.

After the report period, on March 12, 2023, the commissioner's decision was made not to approve at this stage the Company's request to engage in the activity of providing a financial information service according to the Financial Information Service Law, because at the current time such activity, she believes, could raise concerns about harming competition. For more details, see the Company's immediate report dated March 13, 2023 (reference number: 2023-01-026226) which is included herein by way of reference.

8.3.7. <u>The Law for the Promotion of Competition in the Banking Market (Strum Law)</u>

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

8.3.7.1. The law set in place provisions for the purpose of holding controlling means in the Company. Under this directive, Strum Law amended the Payment System Law such that no person in a corporation can hold more than 10% of any type of controlling means 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, provided that: (a) other provisions may not determine 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 means therein, provisions will be put in place to ensure, as much as possible, that as long as participants hold controlling means at that rate, each type of participants may not hold over 50% of controlling means of the company.

8.3.7.2. 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 means 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 provisions for the purpose of appointing directors, their term and termination of their service which determine, among others, that any participant in the interface system may not appoint more than one director of the Company and 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, according to the provisions of section 11e(b) of the Banking Ordinance and part of the provisions for the purpose of external director in the Companies' Law.

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 8.13 below.

8.3.8. Regulation of Payment Services and Initiation of Payments

On January 10, 2022, a memorandum of the law regulating the practice of payment services, -2022, was published, which will enshrine in legislation the regulation of the practice of payment services provided by non-bank entities, with the exception of entities that have been excluded. In accordance with said memorandum, the payment services which it is proposed that practicing them will require license and supervision by the Securities Authority, include these: a basic initiation service and an advanced initiation service, clearing of payment operations, issuance of payment methods, as well as management of a payment account that enables the transfer of payments from one account to another account. This is a regulation of the activity in the electronic payments market and is expected to encourage competition in this market by allowing non-banking parties to enter the field of payments and develop therein, alongside the existing banking players in the market. In the Company's estimation, the regulation of payment services and initiation of payments is expected to increase competition in the payments market, among others, by the entry of new players who will offer solutions for making payments directly between payment accounts, but at the same time, such a solution could be a way that circumvents the use of charge card systems.

8.3.9. The Committee for Examining Competition in the Credit Market

The Committee for Examining Competition in Credit market was established by virtue of the Strum Law. As part of its duties, the committee was tasked with monitoring the implementation of the law to increase competition, recommending steps to improve and increase competition in the credit market and conducting periodic inspections of the competition state in the credit market and identifying barriers to the development of market competition.

On January 3, 2023, the fourth and final report of the Committee for Examining Competition in the Credit Market was published, in which the Company's recommendations and findings were examined and presented in detail, including a report on the implementation of measures to remove barriers by the government and regulators (with the exception of the completion of the regulation of payment services, which is expected to be promoted under the Economic Plan Law for 2023) and by the players in the market and the analysis of the competition in the retail credit market and in the charge card issuing market in Israel. In addition, the report provides an update on the changes that occurred after the publication of the third report and reviews the period between December 2016 and June 2022. As part of the competitive examination, it is shown that between 2016 and June 2022, competition in the retail credit market increased moderately, and mainly in consumer credit, where the institutions and credit card companies increased during this period the credit significantly. However, in credit for small and tiny businesses, there was no significant change in the balance of power between bank credit and non-bank credit, and banks are almost the exclusive source of credit for small and tiny businesses.

8.3.10. <u>Payment Services Law</u>

In October 2020, the Payment Services Law came into effect, which establishes a standard arrangement of consumer protections in the field of payment services.

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 - 1986; 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).

It is noted that the new Payment Services Law excludes, inter alia, payment services that are rendered 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. <u>Definition of the Company as a critical state infrastructure ("CSI")</u>

On November 19, 2019, the Company received an update regarding the decision of the Steering Committee for the Protection of Essential Computerized Systems, led by the National Cyber Organization, to recommend adding the Company to the fifth addendum to the Security Regulation Law in Public Entities, - 1998.

In accordance with the aforementioned, on April 11, 2022, the order for security regulation in public entities (amending the second, third and fifth addendums to the law), 2022, was published, amending the fifth addendum and defining the Company as CSI. With the announcement of the company as CSI, the Company took significant actions and invested many resources to upgrade its information security capabilities.

8.3.12. <u>The Reduction of Cash Usage Law</u>

On March 18, 2018, the Reduction of Cash Usage Law, -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 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.

As of August 2022, the maximum amounts in the reduction of cash usage law were reduced.

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 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.

The multitude of instructions and changes in the world of payments, including the implementation of the provisions of the Strum Law, open banking, the decision of the Commissioner, the regulation of the practice of payment services, the activity of payment applications, and the entry of new competitors, as well as the trends in this market, whether listed above or not, may have a negative effect on the Company, but at this stage it is not yet possible to accurately estimate their overall impact.

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. <u>Developments in the markets of the operating segment, or changes in the characteristics of the segment's customers</u>

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. These markets are experiencing accelerated growth alongside diversification in the services associated with the payment options.

The implementation of EMV technology has resulted in a significant increase in the use of ContactLess payments and digital wallets, along with a constant increase in the volume of consumption and online transactions based on charge cards, the technological development and use of digital platforms allow businesses to consume new products and services such as: increased authentication, use of Pin Pad, etc. This trend is also strengthening in light of the promotion of legislation by the regulator to diversify payment methods and encourage competition in the payments market.

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

In August 2020, the Bank of Israel published a policy document regarding the need to establish an infrastructure for instant payments in Israel. The document included a general reference to the Bank of Israel's expectation regarding the characteristics of an instant payments system. In light of the above, in the Company's estimation, as payment solutions based on the transfer of funds between banks expand and to the extent that their settlement of accounts does not use the Company's products, these solutions may harm the Company's activities and business, a damage that may be substantial, but the Company does not have the ability to anticipate, at this stage, the progress of the developments and consumer preferences about them.

The management of strategic risk in the Company is based on coping with a strategy that is constantly tested.

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 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 Company in 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:

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

8.7.2 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 8.1.5 above, the Company transferred the 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.

8.7.3 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 entities and issuers, and it does not engage directly with businesses; however, the Company is connected to approximately 256,000 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.

In this regard, it is noted that a scenario involving multiple Clearing entities 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 entities into the segment, see section 7.2 above.

8.7.4 Connection of businesses to the Company's systems allows them to operate simultaneously vis-à-vis several Clearing entities (divided according to the card brand), and to transition between the Clearing entities 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 payment solutions were launched which do not use the Company's services. As far as the Company is aware, there are payment solutions and money transfers using apps which are charge card-based, but some of which do not use the Company's services.

In addition, as far as the Company is aware as of the date of the report and in accordance with the legislation being formulated as part of the payment service regulation and payment initiation, there are payment solutions for transferring money from account to account which are expected to provide an alternative solution for payment and money transfer. In the Company's estimation, to the extent that these payment solutions are not based on charge cards, and to the extent that the account settlement is not performed by the Company, these solutions may harm the Company's revenues. The Company is not able to predict, at this stage, whether all entities will choose to use the charge card infrastructure and the Company's products.

To the best of the Company’s knowledge, for the Ashrait PC software distributed by the Company there are competitors in the market. These competitors develop infrastructure software which compete with Ashrait and hardware to points of sale which are marketed to businesses by various market entities (producers), allowing the execution of charge card transactions.

ATM switch - To the best of the Company’s knowledge, one of the companies in the ATM industry directs transactions directly to some of the issuers by direct interfaces it has created with them, without using the Company’s switch.

The Company is unable to predict, at this stage, whether the aforementioned will harm the Company's revenues.

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 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 and Visa provide a transaction transfer interface service that does not rely on the Company's products and infrastructure.

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 direct the transactions executed through their devices to the issuing bank, and not through the Company's services. Those companies have the potential technology infrastructure for providing ATM switching services.

The Company also has several competitors that produce or distribute software that is similar to Ashrait PC. The Company works to advance new developments for enriching the services offered to distributors as part of the Ashrait software to various players in the payment segment.

It is indicated that it is possible to transfer transactions directly to the international charge card brands, and to the best of the Company's knowledge, there are issuers, who execute 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.

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. <u>Products and services</u>

For details regarding the services provided by the Company within its operating segment, see sections 0 to 8.1.11 above.

8.11. <u>Segmentation of revenue from products and services</u>

Presented below is a segmentation of the Company's revenues in respect of the services it provides in the operating segment in 2021 and 2022:

Service type	2022		2021	
	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)	54,731	47%	56,783	51%
Transaction approval and collection and clearing interface (transaction-based revenue)	52,329	45%	44,170	40%
Other (1)	10,102	8%	9,455	9%
Total operating income	117,162		110,408	100%

(1) Including revenues from ATM switching services, from the distribution of Ashrait PC and Ashrait WEB software, revenue from credit discount 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 years, the Company did not make any significant changes to the price list, except for collecting monthly payments from connected terminals that do not process transactions and adding rates for new services.

In this regard it is indicated that according to Hotam's demand the Company worked to transfer the pricing policy for the payment system. On January 27, 2021, a notice was received from Hotam that it has no objection to such pricing policy.

The Company received a demand from Hotam to establish a pricing policy for each payment system. 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.

Also, on May 26, 2021, a request was received from Hotam regarding the completion of the pricing review and the transfer of calculations for all services existing in the Company's price list in accordance with the pricing policy. Accordingly, the Company has been in contact with the Bank of Israel for a long time to review the pricing of all services existing in the Company's price list and updating them accordingly.

8.12. New products and new activities

As part of the strategic plan, the Company develops solutions for businesses in accordance with the many challenges and changes in the Company's areas of activity, while expanding the portfolio of services and providing diverse solutions while adapting them to the size and scope of the business customers' activities in accordance with the challenges and changes of the customers and players in the world of payments:

- **SHVA Arena**

  The Company is expanding its Ashrait software services in accordance with the changing market needs and will enable payment solution providers (PSPs) to provide businesses with a variety of new value propositions and advanced technologies on top of the payment system infrastructure. The Company is developing a value proposition that will make it possible to receive in one arena a wide variety of technological solutions and services for businesses through the expansion of "Ashrait" software services. As a regulated, neutral, stable and reliable entity over the years, with an infrastructure connected to all businesses in Israel, the Company will offer a basket of solutions to distributors and all payment service providers in the payments arena and will respond to the existing demand in the market for all of its customers, including: payment service providers, other fintech companies, and clearing entities. As part of these services, the Company provides access to an innovative solution - Tap on Phone, which enables the smartphone to be turned into a payment terminal. A development that allows every business to receive payments by attaching to charge cards and digital wallets directly to the mobile screen.

The solution complies with the EMV standard, is economical and allows waiving the maintenance of a dedicated terminal for mobile and small businesses. In addition, the Company is developing Ashrait software adapted to the Android operating system, thus expanding the variety of platforms on which the software can be run. The solutions are part of the value propositions the Company will put forward for the benefit of its customers, including distributors, clearing entities and all payment service providers.

- **SHVA Insights**

  The Company is developing a DAAS system - Data As A service - which provides aggregate and anonymous financial information from the point of view of the end customer, all subject to the legal provisions applicable to the Company. The aggregate information is accessed with advanced technology, while connecting directly and using advanced tools to derive insights for finance and credit companies, institutional entities, businesses, payment service providers, networks, shopping centers etc. The Company will provide information services that include, among other things, an insight and signaling engine adapted to industry and need based on the information. Also, and on the basis of receiving approval from the business, his information will be accessed for his needs.
- **CLP (Close Loop Payments)** – 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 with CLPs (Closed Loop Payment) which are "closed circuit" cards.
  These payment service providers issue charge cards for a closed customer club allowing certain businesses to join the club's network so that the customers, the members of the club, can purchase products from them. In this activity model, the same entity performs both the issuing of the card to the customer and the clearing and account settlement with the businesses. The Company allows the connection of all clearing businesses in Israel to the national payments system for the benefit of "closed circuit" payments in accordance with the needs of the developing payments market and everything in accordance with the Bank of Israel's guidelines. This solution works to promote competition that may lead to lower costs and is accessible to the entire population. This service is suitable for customer club operators, digital wallets and other entities interested in producing closed circuit payment solutions that will go through the infrastructure of charge card payments.

- **SHVA 3DS** – the Company provides secure service for the cardholder allowing risk management and customer verification for internet transactions. The solution is part of the value proposition that the Company presents to distributors, clearing entities and all payment service providers.

Below is a list of additional services:

- Response on behalf of the issuer - in light of the increase in the number of approval requests over the years, the Company has developed an option for response on behalf of the issuers according to a pre-defined business logic, for the purpose of providing a quick answer to requests for approval. The use of this service involves a fee according to the Company's price list.

- In accordance with the instructions of Hotam, the Company has developed a number of systems and processes that are expected to begin production activities during the second quarter of 2023, as detailed below:

  - ATM account settlement system - the Company has developed a system aimed to perform the accounting between issuers and ATM operators in the ATM system. The accounting, which is currently carried out bilaterally between the banks, will be carried out by the Company on a daily and controlled basis in a single system that will manage the financial obligations for cash withdrawals in the system.

  - Management of arrangement aimed at handling participant failure in the ATM system - the Company has formulated processes and actions it will take if one of the participants is unable to complete its financial obligations towards other participants. In order to manage the arrangement, a bank account will be opened for the Company at the central bank, where the participants' funds will be deposited, to be used by the company to complete the daily clearing, if necessary.
  - Management of arrangement aimed at dealing with the failure of a participant in the charge card system - the Company has formulated processes and actions that it will take if one of the participants is unable to complete his financial obligations towards other participants. In order to manage the arrangement, a bank account will be opened for the Company at the central bank, where the participants' funds will be deposited, to be used by the Company to complete the daily clearing, if necessary.

  - Direct connection to perform clearing at the central bank - the Company has developed a system that will allow the transmission of SWIFT messages directly to the central bank, for the purpose of performing clearing directly for the system's participants. The system will receive files from the accounting systems of the two payment systems: charge card and ATM, translating them into messages that will be deposited in the central bank for the actual clearing.

The foregoing regarding additional products, developments and services and the date on which the company will provide them, also includes forecasts, estimates, assessments and other information relating to future events and matters, the realization of which is uncertain and not under the control of the Company alone ("forward-looking information"). The main facts and data used as a basis for this information are facts and data regarding the current situation of the Company and its businesses, facts and data regarding the current situation in Israel that affects the Company's area of activity, various regulatory provisions applicable to the Company and macroeconomic facts and data, all as known to the Company at the time of the report. The Company does not have any certainty that its expectations and estimates will indeed be realized, and the date on which these products,

developments and services will be provided and their impact on the Company may differ substantially from what is described above, among other things, due to a change in each of the above factors, their strength, scope, duration of their occurrence and the Company's ability to cope with them.

8.13. Customers

The Company's revenues from credit card companies constitute a significant part of its operating revenues (in 2022 approximately 93% and in 2021 approximately 91%). Hence, there is a dependency between the Company and the credit card companies in Israel, the loss of income from which will significantly affect the activity sector.

The Company's customers are characterized by stability and purchase the Company's services over a long period of time. The Company's engagement with its customers is based on agreements that include the definitions of the service the Company will provide to the relevant customer, as well as in accordance with the rules of the "charge card services" system, as detailed below.

In accordance with the Payment Systems Law, the Company is required, by virtue of being a controlled payment system operator, to apply system rules to each of the controlled payment systems it operates. In July 2018, the rules of the "charge card services" system (hereinafter: the "**rules**") entered into force, which form the basis of the Company's contract with the system's participants. The rules regulate the activity of the charge card service system, which includes both the authorization and collection interface system and the clearing interface system (hereinafter in this section: "the system") and include, among others, the following topics:

- Ensuring the stability, efficiency and proper functioning of the system;
- Conditions for participating in the system, including the conditions for applying to participate in the system, eligibility of the participant, procedural processes for connecting to the system, suspension of a participant, cancellation of participation;
- Description of the system, including details of possible failure events and ways of handling them;
- Principles for risk management;
- Backup arrangements for emergencies.

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 configuration 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 acting 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 acting on its behalf was done deliberately, or with gross negligence;

(B) The damage which was caused was direct damage only, and not consequential 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.

In addition, the Company also formalized rules for the ATM switching system. Those rules were discussed in the Participants Committee established by the Company and were signed by the system's participants. As part of the committee the Company consults with all the system participants but the final version of the rules will be determined by the Company. These rules take precedence over any previous agreement which was signed with the participants.

According to the exemption, the Company is obligated to ensure that the requirements on the access to its systems by all participants are equal. 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 using 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 using its systems and a price list of its services, as determined from time to time.

8.13.2. 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):

	2022	**2021**	**2020**
	NIS in thousands		
Isracard and American Express			
Revenues	47,667	45,127	36,503
Proportion of total revenues	41%	41%	43%
CAL and Diners			
Revenues	33,401	29,686	22,880
Proportion of total revenues	28%	27%	27%
MAX			
Revenues	27,855	25,437	19,461
Proportion of total revenues	24%	23%	23%

8.14. Marketing and distribution

The Ashrait PC software produced by the Company and the 3DS service are marketed to businesses through distributors. The distributors are, in some cases, software firms that provide business management solutions to the businesses, and incorporate Ashrait PC software and 3DS service 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

Since 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 land and facilities

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.

In April 2021, the Company signed an agreement with Masav, jointly and severally (each of which bears 50% of the rental costs), regarding the rental of alternative backup facility for a period of five years (effective January 11, 2020) with an option to extend by two additional terms of five years each, and in total, for an additional period of ten years. For further details, see Notes 10 and 17 of the financial statements.

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. The Company is the owner of proprietary software applications. For additional details, see Notes 8 and 9 to the financial statements. For details regarding the Masav's share in the rental agreement see Regulation 22 of the chapter of Additional Details.

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 and databases</u>

The Company is the owner of the Ashrait trademark for the Ashrait PC software. For further details, see Note 9 to the financial statements. The Company also holds databases regarding workforce and payroll and regarding automated bank services (customers and business partners) in accordance with the provisions of the Protection of Privacy Law -1981.

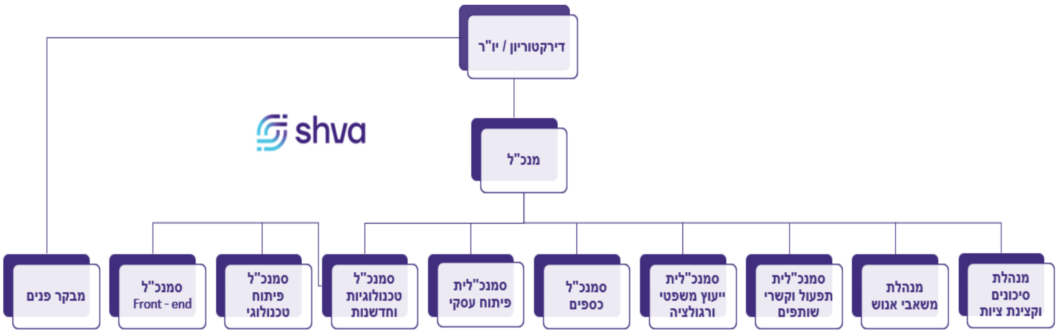
Chapter D - Matters Pertaining to the Activity of the Company as a Whole

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, VP Technologies and Innovation, VP Technology Development, VP FrontEnd System Development, VP Business Development, VP Operations and Partner Relations, VP HR, VP Risks and Compliance Officer 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.

9.2 **The Company’s workforce**

	Shortly before date of this report	31.12.2022	31.12.2021
Total employees *	120	115	96

*Not including overtime

The Company also has 6 external employees through external companies. Some of the Company’s employees, who are employed by the Company, also provide services to Masav 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 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 (supplement 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 -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**

In addition 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 2022, the Company invested in the professional promotion of the Company's employees, 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 approved by the board of directors periodically. 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 the efficiency of processes, and to adjust the organizational structure according to its strategic goals.

9.9 **Collective bargain agreements**

For details regarding the collective agreement applicable to the Company and its employees see Note 13 to the financial statements.

9.10 **Officers and senior executives**

For details regarding the officers and senior management employees, see Regulations 26 and 26A of the chapter of Additional Details About the Corporation.

For details regarding the remuneration paid in the year of the report to the five highest paid employees in the company among the senior officers in the company, see Regulation 21 in the chapter of Additional Details About the Corporation.

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 17.B.2 to the financial statements. The Company and Masav are currently working to reach a customer supplier agreement in accordance with the conditions for approving the restrictive arrangement. See in this regard section 8.3.1 above.

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:

31.12.2022	31.12.2021
185,989	190,788

(*) Working capital, as presented in the above table, is 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 decrease of working capital as of December 31, 2022 was mostly due to the decrease in capital market which had an effect on the Company’s portfolio of held for trading securities 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 annually 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 20.9 below.

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 11 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 the 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), -2010.

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 came 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 each of CAL, Isracard , MAX[3] Tranzila and Cardcom in agreements that govern the relationship between the parties, in connection with the use by credit card companies and new clearing entities 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 each of the three credit card companies 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 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 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.

Upon 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, while considering the provisions of section 268 of the Companies Law.

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.

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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.

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 One Zero 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, upon 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 17.2.6 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 the 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

Regarding the separation between the Company and Masav and the decision of the Commissioner, including reference to the separation of the offices, see Note 17 to the financial statements.

17. Collaboration agreements

For details regarding the cooperation agreement between the Company and Masav, see Note 17 to the financial statements.

18. Legal proceedings

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 payments market is undergoing significant changes, in light of which the Company has re-examined its strategic plan with the aim of expanding the existing infrastructure capabilities and the value propositions associated with them, among other things, through the diversification of income sources and the launch of new products and services alongside connecting more customers to existing services. The Company's business strategy was determined taking into account the business environment in which the Company operates, which is influenced by many factors, the main ones being regulatory changes, technological developments, and changes in consumer behavior. The Company's main goals and business strategy are a derivative of the Company's vision to be a central and leading junction in Israel for transferring transactions and aggregate information, enabling advanced and technological payment solutions while providing equal opportunity and access to progress for all entities and businesses in Israel.

In the coming years, the Company will focus on developing and expanding a portfolio of diverse digital products and services for business entities, payment solution providers (PSP), clearing entities and issuers. The Company will enable smart management of payment transfers and financial information in accordance with the requirements of the developing market and the needs of businesses in Israel, through the initiation of infrastructure solutions based on advanced technology.

In 2022, the Company went through a rebranding process, with the aim of adapting itself to the developing market, to the world of international payments and to continue and strengthen its position as mentioned above. As part of the process, the brand language, the messages and the values that are integrated into the Company's work were redefined - advanced technology, responsibility, caring, equal opportunity and partnership.

As a business technology company, the Company expands the product portfolio, while maintaining and strengthening 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. The Company promotes high technological level, innovation and support in the development of products and services for the Company's customers, including expansion into new areas of activity, subject to the approval of the regulatory bodies, as required.

Within that framework, the Company continued in 2022 to develop different products as described in section 8.12 above, which generate for the Company new revenue streams, along with potential business cooperation with new parties 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, continued investment in business continuity, reinforcing the IT system for formalizing a technology roadmap for the future.

Accordingly, in 2023, the Company intends to begin the process of modernizing significant parts of the Company's central core system, while adapting the technological tools and capabilities to the challenges of the future by converting the system to an open architecture, which will allow simple and easy access and connectivity for its partners and customers. As part of the digital transformation and the transition to advanced technology, the Company is developing for the first time in its history in a cloud environment, a platform of services and products in the worlds of transferring payments and financial information for a variety of uses. The Company will continue to work for a balance between new growth engines and maintaining and expanding existing revenues both by strengthening the relationship with the market and existing customers and by preparing in response to future competition from alternative infrastructures and solutions, while establishing and expanding the Company's capabilities to implement, develop and realize projects and business initiatives.

The Company's estimates in this section are forward looking information, as defined in Securities Law, which is based decisions, estimates and assessments of the management of the Company as of the signing date of the report, in connection with its activity markets and customers. The Company has no certainty that its estimates will materialize, and the Company’s actual activity may differ significantly from the foregoing, inter alia, due to changes to any of the foregoing factors, as well as their intensity, scope, duration, and the Company’s ability to handle them.

20. Discussion of risk factors

Below is the description, in the Company's estimation, of the main risk factors affecting the Company's activities 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. Inflation and interest increase

The Israeli economy is expected to be harmed in the coming year by the slowdown in global economy, the consequences of rise in interest rates, and the erosion of real wages. The Bank of Israel announced in its January 2023 forecast that the local risks include, among other things, the wage agreements expected to be signed in the public sector, which contribute to a certain increase in the rate of inflation. As the salary agreements become more expansive, there is a risk of an increase in the inflation rate in the level of interest and unemployment and a decrease in growth rate.

In light of the above, there is a concern that the economy will be affected by these forecasts, and the economic activity will slow down and enter a recession.

The Company, which is a critical infrastructure, is not significantly affected by macroeconomic changes. But these may affect the preferences of the Israeli business community and cause a reduction in the scope of activity and spending in credit cards in a way that may negatively affect the Company's results.

Sectoral risks:

20.2. Strategic risk

Strategic risk is the risk of damage to income, capital, reputation or status of the Company resulting from taking erroneous 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 operating.

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 regulatory aspects and the Company’s operating market includes a limited number of customers. These changes have significant implications on the Company’s activity and results.

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 to 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 brings up 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 legislation and/or provisions by different regulatory bodies. The Company's activity is regulated and supervised in a stringent manner. 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.

Due to the multitude of regulations applicable to the Company, the investment of many financial and administrative resources is required to ensure compliance with the regulations, including investment in information systems, computer processes, implementation of procedures and controls, employee training and other costs that affect the company's business results.

As a consequence, there is a risk of damage to the group's income and/or capital, arising from legislative processes and/or provisions of regulatory bodies that may cause changes in the Company's business environment. The Company monitors in-process regulation and takes steps as much as possible to adjust its activities and reduce the risk of harm.

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, the Company maintains control and supervision processes carried out by the compliance officer, including periodic compliance surveys, however, 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 considerable 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, provisions 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**

Operational risk is defined as "the risk for loss resulting from inappropriateness or a fault of internal processes, people or systems, or as a result of external events."

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.
The risk centers for operational risks to materialize are:

(a) IT risks

Risks due to failure of technological factors, including system disruptions, inadequate backup of information systems, deficiencies in the information security system, obsolescence of existing systems and reliance on old systems. The realization of operational risks related to information systems, the central computing infrastructures or the integrity and availability of the systems may cause the Company financial and reputational damage.

(b) Information security and cybersecurity risks

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 provider of critical infrastructure is an attractive target for various attackers. Therefore, the Company is at high risk for cyber-attacks and IT threats.
The IT systems, data networks and IT systems used by the Company’s customers are targeted by cyber-attacks, penetration of malware, malicious codes, phishing attacks, and other exposures, which are intended to harm the Company’s services, steal information, or harm the Company’s database.

The Company has drafted a strategy document for information security and cyber protection that defines the Company's concept and goals regarding information security and cyber protection in accordance with the Company's strategy. These documents are validated and approved by the Company's management and board of directors every three years.

In addition, the Company has an annual work plan for information security and cyber protection as well as an information security and cyber protection policy document which aims to be a framework for managing information security and cyber protection risks, setting goals, establishing work procedures that define the principles of management and implementation, the responsibilities of the officers, and the controls that are used by the Company for cyber risk and information security Management - these documents are approved annually by the Company's board of directors.

During 2022, the Company invested many resources in strengthening the information security and cyber protection system. For further details, see section 1.4 of the board and management report - chapter B of this report.

The Company complies with PCI DSS international security standards - and as such there is an annual certification on the subject. During 2022, the Company purchased insurance coverage against cyber damages.

It should also be noted that in accordance with the provisions of the law, Shva is classified as a "critical state infrastructure body" and as such is supervised by the National Cyber System, which is a government body. In this framework, the Company is subject to strict guidelines and audits regarding information and cyber security. The Company also received "Remon" security standard certification, which is the highest certification granted by the National Cyber System.

(c) Business continuity

Since the Company provides critical national infrastructure, the Company is required to develop, fulfil and maintain an operative plan designed to ensure the continuity of its activities and the provision of its critical services, in the event of operational failure events, a disaster and/or emergency.

In accordance with the directives of the supervision of payment systems, the Company is required to verify its ability to restore its critical systems and processes at the times set by the supervisory body. Damage to the continuity of the Company's activity may lead to substantial exposure to lawsuits from system participants and market players, to the intervention by supervisory authorities and damage to the Company's reputation.

The Company maintains an emergency alternative site whose purpose is to provide a response in cases where the Company's main site fails to function. In addition, the Company has a practice program of variable scope and frequency, in accordance with multi-annual plan designed to test the Company's ability to restore its activities in the alternative facility and in a short time.

(d) Human factor risk

The characteristics of the Company's activity confer importance to the Company's ability to recruit and retain professional and high-quality employees, some of whom have unique specialties. Damage to this ability may increase the risk of damages due to incompetence, human error or lack of professionalism of the Company's employees.

The Company maintains internal controls in all processes and activities in order to ensure that the Company's activities are efficient and effective. In addition, the Company has various human resources procedures that are designed to accompany the "life cycle" of the employee, including during recruitment, apprenticeship and training phase, compensation and termination of employment.

In addition, the Company has a professional liability insurance policy for the activities of the Company's employees. However, there is no assurance that the insurance policy will fully cover the operations and/or the amounts that will be claimed for the risks of the human factor.

Operational risk management is implemented in the Company in accordance with the directives of the supervision of payment systems, which determine, among other things, the basic principles for risk management. Risk management in the Company is an ongoing process of identifying and assessing risks, measuring the exposures and capital needs required for coverage on an ongoing basis and reporting to management and the board of directors.

Below are the key principles in operational risk management:

- 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 consequential damage. The second line of defense is the Operational Risk function, which is an independent party 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 annually. 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.
- Operational 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 of risk identification, measurement and assessment – The Company has a uniform methodology for identification and assessment of operational risks inherent in its various activities. Identification methodologies make use of a range of tools and includes a quantitative and qualitative assessment of controls over the risks.

20.7. **<u>Reputational risk</u>**

Reputational 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 high legal costs or reduced revenue. Reputational risks are inherent in the activity of the Company and exist across the organization. Risk management in the Company is primarily based on a process of identifying reputation exposures (any action that may be associated with the Company and may create media coverage or negative discourse). Monitoring and response are performed regularly.

20.8. **<u>Risk of dependence on Masav</u>**

Such separation of the Company from Masav is carried out according to the outline submitted to the Competition Court and includes the separation of the shared infrastructures including, a transition from a situation where there is a common main and secondary computer room, joint computer equipment and joint development and testing and a joint management headquarters, to a situation where each company has a separate computer room and computers, testing development bodies and staff members.

Such a separation is a process of strict planning of separating the infrastructures and information systems, dividing the assets between the companies, recruitment and training of workforce, purchasing additional IT equipment.

Financial risks

20.9. Market risks

Market risk results from change in market conditions (change in pricing levels in various markets, interest rates, exchange rates, inflation, share prices and commodity prices).

The Company is exposed to market risks in relation to its proprietary investment portfolio.

Its proprietary investment is managed based on a conservative investment policy, which is tested annually. The responsibility for market risk management and oversight in the Company lie with 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 periodically the need for updating the investment policy and the need for replacing those portfolio managers whose performance is below Company expectations.

20.10. 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.

20.11. 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.

Number	Risk	Estimate of the risk and their effect		
		Low	Moderate	Major
1.	**Macro**		✓	
2.	**Strategic risk**		✓	
3.	**Regulatory risk**		✓	
4.	**Compliance risk**		✓	
5.	**Legal risk**	✓		
6.	**Operational risk**			✓
7.	**Cybersecurity and data security risk**			✓
8.	**Reputational risk**	✓		
9.	**Risk of dependence on Masav**			✓
10.	**Market risk**		✓	
11.	**Liquidity risk**	✓		
12.	**Credit risk**	✓		

PART B

Report of the Board of Directors and Management as of December 31, 2022

Report of the Board of Directors and Management as of December 31, 2022

Remarks of the Chairman of the Board

I am pleased to present to you with the financial statements for 2022 which have been characterized by geopolitical changes and another round of elections in Israel. The events in the markets accelerated inflation, caused a rapid increase in the price of money and increased uncertainty. At the backdrop of the changes in the economic environment and the expansion of the payment methods offered to the public, the Company worked hard to strengthen its position as a main and central junction in the world of payments and as a critical political infrastructure.

This year, a new management was formulated to lead the Company while facing many challenges and a new branding was launched while expanding and diversifying the portfolio of products and customers. New products and services that will enrich and expand the Company's fields of activity in the coming years were examined, in cooperation with selected customers. At the same time, thinking and examining the Company's traditional technological environment was carried out with a long-term vision and thinking about the advantages inherent in new technological environments.

The Company met the goals it had set for 2022 and worked to strengthen the stability of its systems while maintaining the continuous availability of the services it provides to its customers, alongside the implementation of the plan to separate from Masav. The complex and diverse activity of the Company was carried out with intelligent risk management and reinforcing the information and cyber security system.

Towards 2023, the board of directors and the Company's management approved a strategic plan and a multi-annual work plan for 2023 to 2025. The plan focuses on further strengthening the Company's position in the business environment in which it operates, including the development and expansion of the Company's portfolio of products and services for a wide variety of business entities, payment solution providers and the credit card companies.

The multi-annual work plan combines maintaining the stability and service continuity of the current technological system while striving for improvements and digitization, developing new cloud-based technological systems, supporting the Company's existing and future product and service portfolio and implementing a technological road map for the coming years.

Shva concluded 2022 with a growth of 7% in revenues compared to the previous year, which derives from the local economy and new services and an operating income of NIS 46 million, a decrease of NIS 4.5 million compared to 2021. The Company's equity is strong and stable and will be used by the Company, among others, to realize the strategic plan.

The Company will continue to deal with the challenges it faces due to the diversity and dynamics of the world of payments, strengthen its position as a leading and significant payment infrastructure, expand its activities alongside high-quality and meticulous risk management, promote new growth engines, work to expand the circle of customers and strengthen the relationship with existing customers.

In conclusion, I would like to thank in my name and on behalf of the members of the Board of Directors the employees and managers of the Company who are led by the CEO Eitan Lev Tov for their commitment and contribution to the Company's achievements in the year that was ended.

Shalom Bisteri
Chairman of the Board
March 28, 2023

Report of the Board of Directors and Management as of December 31, 2022

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

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

1.1 Concise description of the Company and its business environment

We are hereby pleased to present to shareholders the Board of Directors' Report of Automated banking Services Ltd. (hereinafter: the "**Company**" or "**Shva**") as of December 31, 2022 and for the one-year period then ended (hereinafter: the "**Reporting Period**"), in accordance with the provisions of Regulation 10 of the Securities Regulations (Periodic and Immediate Reports), -1970.

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 whose shares are traded on the Tel Aviv Stock Exchange 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), -2010.

The Company is operating controlled payment systems constituting critical national infrastructures 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 entities and charge card issuers, and sending approvals for cash withdrawal transactions at ATMs. See section 3 in the Description of the Company's Business.

The payment market in which the Company operates is dynamic, developing and growing at an accelerated pace in recent years. This is reflected, among other things, in frequent and substantial changes in the competitive and business environment as a result of the implementation of various regulatory reforms, technological developments and global developments, in joining of international players and fintech companies and a significant increase in the number of local players in the payment market ecosystem. To the best of the Company's knowledge, the Company is not exposed to substantial competition in its activity sector and is the main supplier of all the services it provides. At the same time, the Company is aware that the changes detailed above, including advanced technological solutions, may change the world of payments and increase the growing competition in the field of payment methods. The Company deals with these changes, among other things, through the following actions: 1) investment and continuous improvement in the Company's technological infrastructure; 2) increasing and expanding the services and products for its clientele; 3) Adapting the Company to the changing environment by constantly and actively challenging the Company's strategy.

In accordance with the Company's strategic plan approved by the board of directors in December 2021, 2022 was mainly characterized by: (a) increased investments in new products and services; (b) Continued implementation of the Company's separation from Masav in accordance with the decision of the Competition Commissioner and additional costs for said separation; (c) Strengthening the cyber protection and infrastructure while starting an organization-wide digital transformation process that includes modernization of the core systems; (d) Defining the company as a critical political infrastructure in accordance with the decision of the National Cyber System; (e) automation of organizational processes and for the first time in the Company's history (f) characterization of a cloud-based platform for the sale of new services and products in the worlds of payments and business information, all as detailed below.

In the Company's estimation, the investments in new products and business development which will intensify in 2023, will diversify the sources of income and the Company's customers and will allow the continued development and growth of the Company and its revenues in the following years of activity.

The Company's estimates regarding its future sources of income as well as changes that will apply in 2023 is forward-looking information, as defined in the Securities Law, which there is no assurance as to how it will materialize and which may materialize in a different way and at different dates than estimated by the Company, and this is, among other things, taking into account the preferences of the market, the company's performance and the situation the economy.

1.2 Entry of new products as part of the strategic plan

In accordance with the Company's strategic plan, during 2022 the Company continued to invest in promoting business development, new services as well as future growth engines as follows:

New services:

- Failure arrangement of charge cards and the ATM system, bilateral accounting between the participants of the ATM system and connection to the Bank of Israel's Zahav system - the Company is working to develop the aforementioned services in accordance with the directives of the supervision of payment systems and Bank of Israel. The costs of developing these services were capitalized in 2022 as assets to intangible assets of the Company in the amount of NIS 2 million. For further details, see the chapter describing the Company's business.

- Additional services on the switch - response on behalf of the issuer (quick response by the Company to requests for approval instead of the issuer), charge card-based payment in public transportation and other services. For further details, see the chapter describing the Company's business.

Key growth engines

- SHVA Insights - The Company is developing a system to make aggregate information accessible to businesses, institutional entities, financial entities, etc. subject to the legal provisions applicable to the Company. The system is expected to be operable during 2023.
  For details, see the new products and new activities section in the chapter describing the Company's business.

- SHVA Arena - The Company is expanding its infrastructure services in accordance with the changing market needs and will enable payment solution providers (PSPs) to provide businesses with a variety of new value propositions and advanced technologies on top of the payment system infrastructure. The system is expected to be operable during 2023.

- SHVA CLP (Close Loop Payments) – 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 with CLPs (Closed Loop Payment) which are "closed circuit" cards. The Company allows the connection of all clearing businesses in Israel to the national payments system for the benefit of "closed circuit" payments in accordance with the needs of the developing payments market and all in accordance with the Bank of Israel's guidelines. This solution works to promote competition that may lead to lower costs and is accessible to the entire population.

The content of this section is forward-looking information, as defined in the Securities Law, which is based on the Company's plans and the Company's subjective assessments regarding the expansion of the services and products it offers, and which may be rejected and/or not exist, among other things, following regulatory provisions, changes in market preferences and other external changes over which the Company has no control.

1.3 Expenses and investments required for the separation of the Company and Masav

In accordance with the decision of the Competition Commissioner and the separation outline of the Company and Masav that was approved by the court, until December 31, 2027, all joint affiliations that exist between them will be completely severed, so that at the end of the aforementioned date, no joint affiliations will remain and no services will be provided from one of the companies to the other that are not as part of the services they sell to the general public. In this regard, see the chapter on separation of the Company and Masav in note 17 to chapter 3 of the financial statements.

In accordance with the provisions of the aforementioned outline, during 2022 Shva purchased the share of Masav in leased improvements and furniture in the amount of approximately NIS 7.5 million and the Company and Masav signed an addendum to the lease agreement assigning Masav's rights in the offices to the Company in accordance with understandings reached between the parties.

In this regard, it should be noted that the effect of the separation from Masav on the Company's results in 2022 amounts to approximately NIS 5.3 million (in 2021, approximately NIS 0.7 million) resulting mainly from increase in the salaries and related expenses section due to the reduction of services provided by the Company to Masav, increase in depreciation and amortization expenses, as well as an increase in other operational expenses resulting from the gradual exit of Masav from the shared infrastructures.

As to the fixed assets (mainly computers and electronic equipment, software and licenses), part of which is jointly owned by the Company with Masav and the costs will be settled as part of mediation proceeding and future agreement to be signed with Masav as described in Note 17 to Chapter C of the financial statements.

The Company's estimates that the current expenses for the separation in 2023 will increase to a total of about NIS 10~12 nillion. As for the current separation expenses at the end of the separation, which is planned to be completed in 2027, they are expected to amount to a total of NIS 15.3 million each year, and this in accordance with an opinion that was submitted to the court with reference to the separation of the Company from Masav. For further details, see Note 17 to Chapter C of the financial statements.

The estimate mentioned in this section above is forward-looking information, as defined in the Securities Law, based on the Company's management's estimates and understanding. The Company's estimates may not materialize, in whole or in part, or materialize differently, including materially than expected, as a result of incorrect estimates, changes in the Company's work plan, unexpected changes in the payments market, changes in the behavior of external parties and regulatory changes over which the Company has no control on them.

1.4 Strengthening cyber protection and starting a modernization process for the technological systems

2022 was characterized by strengthening of the technological system while maintaining very high standards and availability required to support the Company's activities, including the increase in expenses on protection from cyber threats that have risen in recent years. In addition, in accordance with the decision of the National Cyber System, the Company was declared a critical political infrastructure.

During 2022, a multi-annual work plan for 2025-2023 was approved, the essence of which is strengthening protection and increasing security, in order to allow continued effective dealing with information security challenges and a response to the increasing cyber threats.
Also, as part of the Company's strategy for technological progress, the Company approved a modernization plan for one of the core systems, which will be converted to advanced technology. The project is expected to start during 2023 and last for about two years and its cost is estimated at about NIS 10 million.

Carrying out the modernization project will promote the Company's technological vision for an advanced architecture allowing fast connections and the expansion of the Company's portfolio of services.

As part of the substantial changes made by the Company as detailed above and in accordance with the Bank of Israel's requirement to examine the pricing of all existing services in the Company's price list, which has not changed in the last decade with the exception of adding prices for new services and converting prices originally set in foreign currency to NIS, the Company has been in contact for a long time with the Bank of Israel to examine the pricing of all existing services in the Company's price list and update them accordingly.

The content of this section is forward-looking information, as defined in the Securities Law, which is based on the Company's plans and the Company's subjective assessments regarding technological changes and the expansion of the services and products it offers, and which may be rejected and/or not exist, among other things, following regulatory provisions, changes in market preferences and other external changes over which the Company has no control.

1.5 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):

	Year ended December 31	
	2022	**2021**
Debit transactions	2,045	1,830
Credit transactions	21	20

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):

	Year ended December 31	
	2022	**2021**
Total number of balance checks and withdrawals (thousands of transactions)	64,974	64,983
Total amount of withdrawal requests (in millions of NIS)	52,264	50,151

Significant trends, phenomena and developments

- On February 13, 2022, the general meeting of the Company's shareholders approved the grant of options to the Company's CEO and the amending of the Company's remuneration policy. During February, March, May and June 2022, options were allocated to the Company's CEO and other officers.

- On February 27, 2022, the Company published an immediate report according to which the Company wishes to examine the possibility of engaging in the provision of financial information services in accordance with the Information Services Law, subject to obtaining a license and the approval of the Securities Authority. Therefore, and in view of the above, the Company applied to the Competition Authority for approval to engage in the activity - providing a financial information service. After the date of the report, on March 12, 2023, the commissioner's decision was made not to approve the request at this stage. For further details, see note 17 to the financial statements.
- In accordance with the terms of the restrictive arrangement, the separation outline, which was approved by the Competition Court on March 27, 2022, the Company and Masav signed on June 12, 2022, a temporary agreement in the supplier-customer model. For further details, see note 17b to the financial statements.
- On March 29, 2022, the Company's board of directors decided to distribute a dividend in the amount of NIS 22,000 thousand (about NIS 0.55 per share) from the profits of 2021. The dividend was distributed on April 18, 2022.
- Approval interface for clearing CLP cards (Close Loop Payment) CLP - further to what was stated in section 8.12 of the chapter describing the Company's business, in the Company's periodic report for 2021, on June 1, 2022, Hotam approved for the Company to start operations and a pilot with potential operators within this infrastructure.
- On September 8, 2022, the Company published an immediate report (reference number 2022-01-100738) according to which the Company's general meeting approved:
  o The re-appointment of Ms. Jacqueline Natalie Strominger as an external director of the Company for an additional term of three years.
  o The appointment of Ms. Merav Leshem as an external director of the Company for a term of three years.
  o The re-appointment of Mr. Sharon Haran as a director of the Company for an additional term of three years.
  o The re-appointments of the Company's auditors, Kesselman and Kesselman, until the next annual general meeting.

Economic developments in Israel and in the credit card industry

The consumer price index increased by approximately 5.3% in 2022. According to the assessment of the Bank of Israel, the forecasted inflation rate for 2023 is expected to be in the upper limit of the target (3%)

On January 2, 2023, the Bank of Israel decided to raise the interest rate by 0.5 percentage points to 3.75%, and in February 2023, the Bank of Israel announced another increase in the interest rate by 0.5% to 4.25%. According to the Bank of Israel's forecast, that was published in January 2023, the interest rate is expected to be 4% at the end of 2023. From the beginning of 2022, the interest rate increased by 3.65%.

In 2022, the NIS strengthened against the EUR by 8.1% and weakened against the US dollar by 3.8%.
The main impact of the increase in inflation and interest rates affected the value of the Company's held for trading securities portfolio and was reflected in the financing expenses.

Purchases by credit card

In accordance with reports of the Israel Central Bureau of Statistics, total credit card purchases increased in 2022 by 5.9% in the total purchases by credit cards, following an increase of 14.9% in 2021.

Economic developments around the world

According to the IMF, the forecast is that world economy is expected to expand in 2023 by 2.9% and in 2024 by 3.1% compared to a growth forecast of 2.7% for 2023 published in October 2022. According to the estimates of the research division of the Bank of Israel, the scope of the expected growth in GDP for 2023 is 2.8%, and about 3.5% for 2024.

Impact of COVID-19

During the first quarter of 2022, morbidity waves due to new variants of the corona virus were recorded in Israel, however these waves did not lead to the imposition of additional restrictions by the Israeli government. At the beginning of March, the "green pass" was canceled and as of April 23, 2022, the obligation to wear masks in closed places was canceled.
The results of the Company's activities during the reporting period were not affected by the pandemic.

Changes in legislation in Israel

After the report period, the Israeli government began legislative measures, some of which have already passed the first reading in the Knesset, the purpose of which is to make constitutional changes in the Israeli legal system, which led to a wave of protest in the Israeli public and warnings from economic experts regarding damage to the Israeli economy. As of the date of the report, the legislative work regarding the laws included in the constitutional changes has not yet been completed, and the Company has no possibility to assess whether and how these changes will affect its operations or the Israeli economy.

The reference that appears in this section in connection with the Company's assessments of future developments in the global and local economic environment as well as in connection with the possible consequences of these developments on its activities, are considered forward-looking information as defined in section 32a of the Securities Law. These developments and consequences are not under the control of the Company, they are not certain and are based on information available to the Company as of the approval date of the report.

1.6 Financial position

Presented below is an analysis of the main changes in statement of financial position items as of December 31, 2022, compared to December 31, 2021 (in thousands of NIS):

	December 31		Change	Comments and explanations
	2022	2021		
	Audited			
Assets				
Cash and cash equivalents	**37,941**	43,827	(5,886)	Deposited into short term deposit
Short term deposits	**10,087**	-	10,087	
Held-for-trading securities	**127,554**	136,871	(9,317)	Impairment in value of portfolio due to volatility in the capital market
Trade receivables	**21,959**	22,366	(407)	
Other accounts receivable	**3,447**	4,653	(1,206)	
Excess plan assets for post-retirement employee benefits	**953**	-	953	
Property, plant and equipment, net	**24,891**	16,772	8,119	Derives from the purchase of leasehold improvement and furniture from Masav
Intangible assets, net	**3,720**	1,839	1,881	Derives from development of new products
Right of use assets	**20,788**	11,815	8,973	Derives from applying IFRS 16 in respect of the Company's offices after purchasing Masav's share in the leased property
Prepaid expenses	**1,922**	3,005	(1,083)	
Deferred taxes	**664**	173	491	
Liabilities and equity				
Current maturities of lease liabilities	**2,120**	1,383	737	
Trade payables	**3,561**	1,155	2,406	The increase is mainly due to the timing of current payments to suppliers
Other accounts payable	**13,033**	13,884	(851)	
Income tax payable	**2,170**	4,599	(2,429)	
Lease liability	**19,252**	10,785	8,467	Derives from applying IFRS 16 in respect of the Company's offices after purchasing Masav's share in the leased property
Employee benefit liabilities	**-**	792	(792)	
Equity attributed to the Company's shareholders	**212,448**	206,808	5,640	The increase during the reporting period was due to the profits this year net of dividend distributed

1.7 Operating results

Presented below is an analysis of the main changes in statement of income items as of December 31, 2022, relative to the corresponding period last year (in thousands of NIS):

	Year ended December 31		Change	Comments and explanations relative to the corresponding period last year
	2022	**2021**		
	Audited			
Revenue from provision of services to clearing entities and issuers	**108,495**	102,164	6,331	2022 reflects an increase in pin pad infrastructure, increase in activity mainly in request approval and income from new activity which was partly offset by a decrease in the number of connected terminals
Revenue from provision of services to others	**8,788**	8,244	544	
Total revenue	**117,283**	110,408	6,875	
Operating, general and administrative expenses	**71,452**	60,078	11,374	The increase in expenses was mostly due to implementation of the separation from Masav in the amount of NIS 5.3 million, equity compensation in respect of options of NIS 2 million, strengthening the cyber protection and moving forward the modernization process in the amount of NIS 1.5 million and adding HR as part of implementing the strategic.
Operating profit	**45,831**	50,330	(4,499)	
Finance income (expenses), net	**(11,391)**	7,402	(18,793)	Mainly from a decrease in the company's securities portfolio (compared to an increase last year) and this in light of the declines and fluctuations in the capital market.
Profit before taxes on income	**34,440**	57,732	(23,292)	
Provision for taxes on income	**10,355**	13,175	(2,820)	The Company did not create deferred taxes for the decrease in the securities portfolio in the reported year. For further details, see note 11c to the financial statements.
Net income attributable to shareholders	**24,085**	44,557	(20,472)	The increase derives from the trends described above.
Net earnings per share	**0.60**	1.11		

1.8 Presented below is an analysis of the main changes in statement of cash flows items as of December 31, 2022, relative to the corresponding period last year (in thousands of NIS):

	Year ended December 31		Comments and explanations relative to the corresponding period last year
	2022	**2021**	
	(Audited)		
Net profit for the period	**24,085**	44,557	
Adjustments to profit	**30,261**	12,372	The change is mainly due to the decrease in value of held for trading securities portfolio
Cash flows before changes in asset and liability items and before finance and taxes	**54,346**	56,929	
Changes to asset and liability items, net	**4,233**	(7,452)	The change is mainly due to a decrease in the balance of a related company and an increase in trade payables in light of the increase in activity
Cash flows from taxes and finance	**(11,445)**	(6,397)	The change derives from the payment of current taxes
Net cash provided by operating activities	**47,134**	43,080	The change derives from the foregoing
Net cash used in investing activities	**(29,105)**	(22,036)	The change derives from investment in fixed assets
Net cash used in investment activities	**(23,915)**	(26,560)	The negative flow results from the distribution of dividends and the repayment of a lease liability

1.9 **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

Mr. Eitan Lev Tov, CEO of the Company, is responsible for managing the Company's market risks. In accordance with the investment policy determined, as stated above, by the Company's Board of Directors. For details regarding Mr. Eitan Lev Tov, 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 127,554 thousand as of December 31, 2022. Cash and deposits in banks as of December 31, 2022 amounted to a total of approximately NIS 48,028 thousand. The aforementioned assets amounted, as of December 31, 2022, to a total of approximately NIS 175,582 thousand compared to NIS 180,698 thousand as of December 31, 2021.

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 hence, 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 annually. The policy most recently adopted by the Company's Board of Directors includes, inter alia, investments in the following assets:

- Up to 10% of the portfolio value can be invested in corporate bonds rated at least AA- or Aa3 and foreign bonds with a minimum international rating of BBB.
- Up to 20% of the portfolio value can be invested in shares in Israel and abroad using index products only while limiting to leading indices.
- The balance of the portfolio value can be invested in bonds and treasury bills of the State of Israel, bank deposits and treasury bills of the State of Israel and leading countries in the world.
- The duration of the entire case shall not exceed 5 years.
- The total exposure to foreign exchange will not exceed 10% of the entire portfolio.

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 annually 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, 2022 NIS in thousands				
	In Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Assets					
Cash and deposits in banks	37,937	-	2	2	37,941
Short term deposits	10,087	-	-	-	10,087
Held-for-trading securities	74,064	50,038	3,452	-	127,554
Trade receivables	21,959	-	-	-	21,959
Other accounts receivable	596	-	-	-	596
Total financial assets	144,643	50,038	3,454	2	198,137
Current maturities in respect of lease	-	2,120	-	-	2,120
Trade payables	3,561	-	-	-	3,561
Other accounts payable	8,529	-	-	-	8,529
Income tax payable	-	2,170	-	-	2,170
Lease liabilities	-	19,252	-	-	19,252
Total financial liabilities	12,090	23,542	-	-	35,632
Net fair value of financial instruments	132,553	26,496	3,454	2	162,505

	As of December 31, 2021 NIS in thousands				
	In Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Assets					
Cash and deposits in banks	43,826	-	1	-	43,827
Held-for-trading securities	74,251	56,306	6,314	-	136,871
Trade receivables	22,366	-	-	-	22,366
Other accounts receivable	2,714	-	-	-	2,714
Total financial assets	143,157	56,306	6,315	-	205,778
Current maturities in respect of lease	-	1,383	-	-	1,383
Trade payables	1,155	-	-	-	1,155
Other accounts payable	10,104	-	-	-	10,104
Income tax payable	-	4,599	-	-	4,599
Lease liabilities	-	10,785	-	-	10,785
Total financial liabilities	12,224	23,542	-	-	28,026
Net fair value of financial instruments	131,898	39,539	6,315	-	177,752

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

	As of December 31, 2022 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%	130,551	25,474	3,454	2	159,481	(3,024)	(1.86)
Immediate increase of 0.1%	132,352	26,395	3,454	2	162,203	(302)	(0.19)
Immediate decrease of 1%	134,554	27,519	3,454	2	165,529	3,024	1.86
Immediate decrease of 0.1%	132,753	26,598	3,454	2	162,807	302	0.19

	As of December 31, 2021 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%	129,313	37,503	6,315	-	173,131	(4,621)	(0.03)
Immediate increase of 0.1%	131,640	39,335	6,315	-	177,290	(462)	(0.00)
Immediate decrease of 1%	134,482	41,576	6,315	-	182,373	4,621	0.03
Immediate decrease of 0.1%	132,156	39,743	6,315	-	178,214	462	0.00

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

	As of December 31, 2022 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%	133,868	26,496	4,428	2	164,794	2,289	1.41
Immediate increase of 5%	133,210	26,496	3,942	2	163,650	1,145	0.70
Immediate decrease of 10%	131,237	26,496	2,481	2	160,216	(2,289)	(1.41)
Immediate decrease of 5%	131,894	26,496	2,968	2	161,360	(1,145)	(0.70)

	As of December 31, 2021 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%	133,990	39,539	6,946	-	180,475	2,723	0.02
Immediate increase of 5%	132,945	39,539	6,630	-	179,114	1,362	0.01
Immediate decrease of 10%	129,807	39,539	5,683	-	175,029	(2,723)	(0.02)
Immediate decrease of 5%	130,851	39,539	6,000	-	176,390	(1,362)	(0.01)

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

	As of December 31, 2022						
	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%	132,553	27,026	3,454	2	163,035	530	0.33
Immediate increase of 1%	132,553	26,761	3,454	2	162,770	265	0.16
Immediate decrease of 2%	132,553	25,966	3,454	2	161,975	(530)	(0.33)
Immediate decrease of 1%	132,553	26,231	3,454	2	162,240	(265)	(0.16)

	As of December 31, 2021						
	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%	131,898	40,330	6,315	-	178,543	791	0.00
Immediate increase of 1%	131,898	39,934	6,315	-	178,147	395	0.00
Immediate decrease of 2%	131,898	38,748	6,315	-	176,961	(791)	(0.00)
Immediate decrease of 1%	131,898	39,144	6,315	-	177,357	(395)	(0.00)

3. Disclosure in Connection with the Corporation's Financial Reporting

3.1. Dividend distribution

Distribution of dividend to shareholders of the Company is subject to the provisions of the statute and the Company's articles, as well as the rules and conditions for dividend distribution in the Companies Law.

On March 29, 2022, the Company's board of directors resolved to distribute a dividend in the amount of NIS 22,000 thousand (NIS 0.55 per share) from the profits for 2021. For further details, see immediate report issued by the Company or about the issuance date of this report.

On March 28, 2023, the Company's board of directors resolved to distribute a dividend in the amount of NIS 22,000 thousand (NIS 0.55 per share) from the profits for 2022. For further details, see immediate report issued by the Company or about the issuance date of this report.

For details regarding restrictions on dividend distribution see section 5 of the Description of the Company's Business and Note 14 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 Board members have accounting and financial expertise, 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 Shalom Bisteri, 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 of additional details below.

Changes in the board of directors:

- On September 8, 2022, the Company published an immediate report (reference number 2022-01-100738) according to which the Company's general meeting approved:

- The reappointment of Ms. Jacqueline Natalie Strominger as an external director of the Company for an additional term of three years.
- The re-appointment of Mr. Sharon Haran as a director of the company for an additional term of three years.
- The appointment of Ms. Merav Leshem as an external director of the company for a term of three years.

Changes in management:

- On January 1, 2022, Ms. Merav Seror stepped down from her position as the Company's VP of Business Development.
- On February 23, 2022, Ms. Ronit Tishler Pitti was appointed as the Company's Vice President of Operations and Partner Relations in accordance with the approval of the Bank of Israel.
- On March 23, 2022, Mr. Guy Ram was appointed as VP of Technology and Innovation of the Company in accordance with the approval of the Bank of Israel.
- On June 1, 2022, Ms. Tali Hollenberg began serving as the VP of Marketing and Sales Business Development in the Company.
- On June 15, 2022, Ms. Odelia Green Katz began serving as the Company's human resources manager.

Donations:

The Company has donations policy. During the year ended December 31, 2022, the Company made donations in immaterial amounts.

The Company’s internal auditor:

On November 29, 2021, Mr. Eli Hillel was appointed as the Company's Internal Auditor (hereinafter: "the Internal Auditor"),

Mr. Eli Hillel holds a bachelor's degree in business administration majoring in accounting and information systems from the Kiryat Ono Academic Campus from the College of Management, a certified public accountant since 2014, a graduate of the Cyber Protection Technology and Methodology Course from (CISO) See-Security College - 2007 Certified Internal Auditor (CIA) from the Institute of Internal Auditor - USA, (CRISC) Certified in Risk and Information, System Control Certified Information Systems Auditor (CISA) and Certified Data Privacy Solutions Engineer (CDPSE) by ISACA USA He also holds a certificate as a graduate of the Certified Information Systems Analysis (CSA) course from the Bureau of Information Technology in Israel and John Bryce Training. Mr. Hillel has extensive professional knowledge in the areas of internal audit, information systems, finance and regulation.

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, -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, other than options granted to the internal auditor as detailed in the immediate report dated February 22, 2022 (Reference. 2022-01-021400), 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 was satisfied that the internal auditor met the foregoing requirements, based on his declaration, and on an evaluation of the reports he submitted.

A. Methods of appointment

On November 29, 2021, the Company's Board of Directors, following the approval of the Audit Committee dated November 22, 2021, approved the appointment of Mr. Eli Hillel to the position of the Company's internal auditor, as well as his tenure and employment (after approval by the Remuneration Committee). His appointment was based on his training and professional experience. On February 9, the Supervisor of Banks announced 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, powers 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.

B. 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.

C. <u>Work plan</u>

- 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 annually and when adjustments are required.
- For the purpose of outlining the multi-annual work plan, and for the purpose of outlining 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.

- **<u>Creation of multi-annual work plan</u>**

  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.

- **<u>Material transactions</u>**
  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 risks.

D. <u>Scope of resources available to the internal audit unit</u>

The internal auditor is employed at a rate of about 80% position. If necessary, the internal auditor is assisted by external consultants to perform the audit tasks. After the report period, in January 2023, the board of directors approved the employment of the internal auditor on a full-time basis due to the increase in the scope of the internal audit plan.

E. <u>Performance of internal auditing</u>

- 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) (the Institute of Internal Auditors) as well professional directives 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.

F. <u>Access to information</u>

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.

G. <u>Internal audit reports</u>

- 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.
- A full updated and approved internal audit work plan was carried out fully. 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.
- At the end of 2022, the internal auditor prepared a multi-year work plan which was approved by the audit committee and the company's board of directors.

H. <u>Board of directors' assessment of the Internal Auditor's work</u>

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.

I. <u>Compensation</u>

- The tenure and employment of the internal auditor were approved by the Board of Directors, in respect of his employment with the Company according to the Company's remuneration policy.
- In addition, the internal auditor was granted 18,841 convertible options into the Company's ordinary shares, in accordance with the approved remuneration policy for the CEO and senior officers.
- The Board of Directors believes that the payments to the internal auditor do not influence his judgment.

Independent auditor:

- Presented below are details regarding the auditors' fees for 2022 and for 2021, in thousands of NIS:

For	2022	2021
Kesselman & Kesselman (PwC Israel)		
Audit, clearing, SOX and current tax services	185	185
Other services	38	125

Shalom Bisteri **Chairman of the Board**	**Eitan Lev Tov** **CEO**

Approval date of the reports: March 28, 2023

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PART C

Financial Statements
As of December 31, 2022

Financial Statements as of December 31, 2022

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Auditors' report to the shareholders of Automated Banking 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 Banking Services Ltd (hereinafter: "the Company") as of December 31, 2022. 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, 2022.

We have also audited, in accordance with generally accepted audit standards in Israel, the Company's financial statements as of December 31, 2022 and 2021 and our report dated March 28, 2023 included our unqualified opinion of said financial statements.

Tel Aviv, Israel
March 28, 2023

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

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

We have audited the statements of financial position of Automated Banking Services Ltd. (hereinafter: the "Company") as at December 31, 2022 and 2021, 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.

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), -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, 2022 and 2021, as well as its operating results, changes in equity and cash flows for each the two years then ended, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), -2010.

Key matters in audit

Key matters in audit are matters that were communicated, or were required to be communicated, to the Company's board of directors and which, according to our professional judgment, were most significant in the audit of the financial statements for the current period. These matters include, among other things, any matter which: (1) relates, or may relate, to material sections or disclosures in the financial statements, and (2) our judgment regarding it was particularly challenging, subjective or complex. We have determined that there are no key matters in the audit to communicate.

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, 2022, and our report dated March 28, 2023, included an unqualified opinion on the presence of effective components.

Tel Aviv, Israel
March 28, 2023

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

Financial Statements as of December 31, 2022

Statements of Financial Position as of December 31

Amounts in thousands of NIS

	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents	3	**37,941**	43,827
Short term deposits	4	**10,087**	-
Held-for-trading securities	5	**127,554**	136,871
Trade receivables	6	**21,959**	22,366
Other accounts receivable	7	**3,447**	4,653
Total current assets		**200,988**	207,717
Non-current assets			
Excess of plan assets for post-retirement employee benefits, net	13	**953**	-
Property, plant and equipment, net	8	**24,891**	16,772
Intangible assets - software programs and licenses, net	9	**3,720**	1,839
Right-of-use assets	10	**20,788**	11,815
Prepaid expenses		**1,922**	3,005
Deferred taxes	11	**664**	173
Total non-current assets		**52,938**	33,604
Total assets		**253,926**	241,321

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	2022	2021
Liabilities and equity			
Current liabilities			
Current maturities of lease liabilities	10	**2,120**	1,383
Trade payables		**3,561**	1,155
Other accounts payable	12	**13,033**	13,884
Current tax liabilities		**2,170**	4,599
Total current liabilities		**20,884**	21,021
Non-current liabilities			
Lease liabilities	10	**19,252**	10,785
Liability for post-retirement employee benefits, net	13	**-**	792
Liabilities for employee benefits	13	**1,342**	1,915
Total non-current liabilities		**20,594**	13,492
Total liabilities		**41,478**	34,513
Equity	14		
Share capital		**4,587**	4,587
Share premium		**150**	150
Capital reserve from share based payment		**2,139**	-
Other comprehensive loss		**(1,870)**	(3,286)
Retained earnings		**207,442**	205,357
Total equity attributable to company shareholders		**212,448**	206,808
Total liabilities and equity		**253,926**	241,321

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

Shalom Bisteri **Chairman of the Board**	**Eitan Lev Tov** **CEO**	**Ofer Eden** **VP of Finance and CFO**

Approval date of the reports: March 28, 2023

Financial Statements as of December 31, 2022

Statements of Profit or loss for the Year Ended December 31

Amounts in thousands of NIS

	Note	2022	2021	2020
Revenues				
From the provision of services to clearing entities and issuers		**108,495**	102,164	77,786
From the provision of services to others		**8,788**	8,244	7,417
Total revenues		**117,283**	110,408	85,203
Operating, general and administrative expenses	15	**71,452**	60,078	51,651
Operating income		**45,831**	50,330	33,552
Finance income from marketable securities, net	16	**(11,142)**	7,725	2,100
Finance income	16	**325**	59	20
Finance expenses	16	**(574)**	(382)	(390)
Finance income (expenses), net		**(11,391)**	7,402	1,730
Profit before taxes on income		**34,440**	57,732	35,282
Income tax	11	**10,355**	13,175	8,162
Net profit attributable to Company shareholders		**24,085**	44,557	27,120
Net earnings per share attributable to shareholders		**0.60**	1.11	0.68

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

	2022	2021	2020
Net income	**24,085**	44,557	27,120
Other comprehensive income before tax:			
Amounts not subsequently to be classified to profit or loss:			
Adjustments of liabilities in respect of employee benefits	**1,839**	847	300
Other comprehensive income before tax	**1,839**	847	300
Attributable tax impact	**(423)**	(195)	(69)
Other comprehensive income attributable to shareholders, after taxes	**1,416**	652	231
Comprehensive income attributable to shareholders	**25,501**	45,209	27,351

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

Financial Statements as of December 31, 2022

Statement of Changes in Equity

Reported amounts in thousands of NIS

	Share capital	Share premium	Capital reserve from share based payment	Accumulated other comprehensive loss	Accumulated retained earnings	Total equity
Balance as of January 1, 2022	**4,587**	**150**	**-**	**(3,286)**	**205,357**	**206,808**
Changes during the year:						
Net income	**-**	**-**	**-**	**-**	**24,085**	**24,085**
Other comprehensive income	**-**	**-**	**-**	**1,416**	**-**	**1,416**
Total comprehensive income	**-**	**-**	**-**	**1,416**	**24,085**	**25,501**
Cost of share based payment	**-**	**-**	**2,139**	**-**	**-**	**2,139**
Dividend paid	**-**	**-**	**-**	**-**	**(22,000)**	**(22,000)**
Balance as of December 31, 2022	**4,587**	**150**	**2,139**	**(1,870)**	**207,442**	**212,448**

	Share capital	Share premium	Accumulated other comprehensive loss	Accumulated retained earnings	Total equity
Balance as of January 1, 2021	4,587	150	(3,938)	186,000	186,799
Changes during the year:					
Net income	-	-	-	44,557	44,557
Other comprehensive income	-	-	652	-	652
Total comprehensive income	-	-	652	44,557	45,209
Dividend paid	-		-	(25,200)	(25,200)
Balance as of December 31, 2021	4,587	150	(3,286)	205,357	206,808

	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

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

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Financial Statements as of December 31, 2022

Statements of Cash Flows for the Year Ended December 31

Amounts in thousands of NIS

	2022	2021	2020
Cash flows from operating activities:			
Net profit for the year	**24,085**	44,557	27,120
Adjustments required to present cash flows from operating activities:			
Adjustments to profit or loss items:			
Depreciation and amortizations	**6,852**	6,553	5,897
Capital loss	**3**	4	-
Expenses for share based remuneration	**2,139**	-	-
Liability in respect of post-retirement employee benefits, net	**47**	(58)	181
Change in liabilities for employee benefits, net	**(526)**	100	(404)
Income tax	**10,355**	13,175	8,162
Finance expense (income), net	**11,391**	(7,402)	(1,730)
Changes in asset and liability items, net:			
Decrease (increase) in trade receivables	**407**	(4,392)	1,187
Decrease (increase) in other accounts receivable	**2,271**	(139)	(786)
Increase (decrease) in trade payables	**2,406**	(202)	(805)
Increase (decrease) in other accounts payable	**(851)**	(2,719)	4,437
Cash flows from operating activities before finance and taxes	**58,579**	49,477	43,259
Interest received	**3,077**	2,874	2,568
Interest and fees paid	**(824)**	(523)	(547)
Taxes paid, net	**(13,698)**	(8,748)	(9,539)
Net cash from operating activities	**47,134**	43,080	35,741
Cash flows from investing activities:			
Investment in short term deposits	**(10,000)**	-	-
Purchase of held-for-trading securities	**(77,827)**	(73,920)	(82,723)
Consideration from the sale of held-for-trading securities	**73,413**	53,606	69,404
Purchase of, and investment in property, plant and equipment and intangible assets	**(14,691)**	(1,723)	(4,862)
Consideration from realization of equipment	**-**	1	-
Net cash used in investing activities	**(29,105)**	(22,036)	(18,181)
Cash flows from financing activities:			
Repayment of lease liabilities	**(1,915)**	(1,360)	(904)
Dividend paid	**(22,000)**	(25,200)	-
Net cash used in financing activities	**(23,915)**	(26,560)	(904)
Increase (decrease) in cash and cash equivalents	**(5,886)**	(5,516)	16,656
Balance of cash and cash equivalents at beginning of year	**43,827**	49,343	32,687
Balance of cash and cash equivalents at end of year	**37,941**	43,827	49,343

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

	2022	2021	2020
Annex A - Non-Cash Material Operations			
Recognition of right-of-use asset against lease liability	**11,119**	4,228	596

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

Note 1 - General

A. The reporting entity

1. Automated banking Services Ltd. (hereinafter: the "**Company**") was incorporated in Israel on September 13, 1978, and its official corporate address is 26 HaRokmim St., Holon. In the last year, the company has rebranded itself and is called Shva.

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 (A reporting corporation as defined in the Securities Law, 1968).

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), -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 means are not subject to restrictions on the holding of the control means 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 (assessment of directors' qualifications and compatibility).

4. On June 20, 2022, the Company received a notification from the Supervisor of Banks, according to which, with the expiration of three years from the date of cancellation of the Company's license as a joint services company, the period of application of Proper Conduct of Banking Business Directives to the Company has ended.

5. The Company is currently operating in a single operating segment, the clearing segment, which includes the operation of a bidirectional communication system connecting Clearing entities and charge card issuers and businesses, management and operation of a clearing interface for communication between Clearing entities and charge card issuers, which allows the settling of accounts and the transfer of information between them in connection with such transactions, management and operation of a switching system that connects ATM networks and development and distribution of the Ashrait PC and Ashrait EMV software. Most of the Company's revenues derive from the provision of clearing services to credit card companies. For details regarding the Competition Commissioner's decision dated December 28, 2022 to grant an additional exemption for the Company's activity in the transaction collection and authorization services and in interface services for Clearing entities and issuers, see Note 17.

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 (IFRIC), or interpretations published by the Standing Interpretation Committee (SIC), respectively.
Company	-	Automated banking 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, -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. For further details, see Note 17 below.
CPI	-	The consumer price index, as published by the Central Bureau of Statistics.

C. The financial statements were approved for publication by the Company's Board of Directors on March 28, 2023.

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), -2010.

(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.

B. Use of estimates and judgment

In the 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

The Company does not have critical estimates.

C. 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.

D. Property, plant and equipment

1. **Recognition and measurement**
items of property, plant and equipment 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 profit or loss.

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 profit or loss 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
Office furniture and equipment	7 – 15
Leasehold improvements	5

The estimates in respect of the depreciation method, the useful lifetime and the residual value are re-evaluated annually 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.

E. Intangible assets

Intangible assets 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 profit or loss as incurred.

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 least annually.

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

	%
Software and licenses (2)	20-33
Projects under construction (1)	20-33

1. **Projects under construction**

Research costs are carried to the statement of profit or loss as incurred. 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.
Costs directly related to the development of identified and unique software products, controlled by the company, that meet the conditions for recognition of intangible assets that were created in the entity, as detailed above, are recognized as intangible assets. The costs include the salary costs of the development workers and an appropriate proportional part of the relevant indirect expenses. Other expenses for development, which do not meet these conditions, are recognized as expenses as incurred. Development costs previously recognized as an expense are not recognized as an asset in a later period. Capitalized development costs are shown as intangible assets, and are deducted from the point in time when the asset is available for use, that is, when it is in the location and condition required for it to be able to operate in the manner intended by management, in accordance with the straight-line method, over its useful life, which does not exceed 5 years. The asset is measured at cost and presented less accumulated amortization, and less accumulated impairment. An impairment test is performed annually and throughout the development period.

Note 2 - Significant Accounting Policies (Cont.)

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.

F. Leases

The Company leases its offices, vehicles and backup facility as detailed below.

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.

   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 incurred. 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)
Back up site	10 (lease period plus one option 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 right of use asset and are carried as an adjustment to the balance of the lease liability.

Note 2 - Significant Accounting Policies (Cont.)

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 likely that the option to extend will be exercised, as well as periods covered by an option to cancel the lease, when it is reasonably likely 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 re-measures 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 re-measures 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.

   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 re-measures 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.

G. 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**

   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.

Note 2 - Significant Accounting Policies (Cont.)

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 profit or loss 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 not 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 substantially 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 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.

Note 2 - Significant Accounting Policies (Cont.)

H. 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.

I. 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 profit or loss.
- 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.

J. 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.

K. 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 profit or loss.

L. 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 sharing 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 can be 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 remuneration 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 remuneration 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 or 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 incurrence.

(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.)

M. 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 profit or loss.

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.

N. 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.

O. 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.

Note 2 - Significant Accounting Policies (Cont.)

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-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.

P. 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.

Q. Income tax

Taxes on income in the statement of profit or loss 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. <u>Current taxes</u>
The current tax liability is determined using the tax rates and tax laws which have been enacted, or substantially enacted, by the reporting date, as well as necessary adjustments in respect of the tax liability for prior years.

2. <u>Deferred taxes</u>
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.

R. 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.)

The Company calculates the diluted earnings per share and adjusts the profit or loss, attributable to the Company's ordinary shareholders, and the weighted average of the number of outstanding shares for the effects of all potential dilutive ordinary shares, as follows:
To the profit or loss, attributable to the Company's ordinary shareholders the amount after tax of dividends and interest recognized in the period is added with reference to the potential dilutive ordinary shares and is adjusted for any other changes in income or expense, which would result from the conversion of the potential dilutive ordinary shares;
To the weighted average of the number of outstanding ordinary shares the weighted average of the number of additional outstanding ordinary shares is added assuming that all potential dilutive ordinary shares have been converted.

The potential shares are taken into account only when their effect is dilutive (reduces the earnings per share or increases the loss per share).

S. 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.

T. 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 5 regarding held-for-trading securities.
Note 13 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.

U. 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.

Note 2 - Significant Accounting Policies (Cont.)

V. 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.

W. Initial adoption of new standards

During the reported period, a number of interpretations and amendments to accounting principles came into force, the effect of which on the interim reports is as follows:

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

In 2020, an amendment to IAS 1 was published regarding the classification of liabilities as current or non-current. The amendment clarified that the classification of liabilities is based on the rights that exist at the end of the reporting period and is not affected by the entity's expectation of exercising this right. The amendment replaces certain classification requirements of liabilities as current or non-current. In addition, the amendment clarified that if the right to defer a settlement is conditional on meeting financial covenants, the right exists if the entity meets the financial covenants established at the end of the reporting period, even if the examination of compliance with the covenants is done by the lender at a later date. That is, a right exists as of the reporting date only if an entity meets the conditions for deferring payment as of this date.

Also, as part of the amendment, a definition was added to the term "settlement" in order to clarify that settlement can mean the transfer of cash, goods and services or equity instruments of the entity itself to a counterparty. In this regard, it was clarified that if, according to the terms of the commitment, the counterparty has an option to demand settlement in the entity's equity instruments, this condition does not affect the classification of the liability as current or non-current if the option is classified as a separate equity component in accordance with IAS 32 "Financial Instruments: Presentation".

In October 2022, another amendment was published regarding the classification of liabilities with financial covenants, which clarified that only financial covenants that the entity is required to meet at or before the end of the reporting period affect the entity's right to defer the settlement of a liability for 12 months after the reporting period, even if compliance with them is examined after the reporting period. For example, according to the amendment, a liability will be classified as non-current when the entity has the right to defer payment for a period of at least 12 months after the reporting period, and exists at the end of the reporting period. In addition, this amendment states that if the entity's right to defer the settlement of the liability is subject to the entity meeting financial covenants within 12 months after the reporting period, the entity is required to provide a disclosure that will allow the users of the financial statements to understand the risk inherent therein.

The other amendments published as part of the amendment in 2020 remain in place.
The commencement date of the 2020 amendment and the 2022 amendment is determined for annual reporting periods beginning on or after January 1, 2024. Early application is permitted and provided that both amendments are carried out at the same time. The amendment will not have a material impact on the Company's financial statements.

Note 2 - Significant Accounting Policies (Cont.)

2. **Amendment to IAS 8 "accounting policies, changes in accounting estimates and errors**"

The definition of "changes in accounting estimates" was changed by a new definition of "accounting estimates".

Accounting estimates according to the new definition are "financial amounts in the financial statements that are subject to uncertainty in measurement ".

The amendment clarifies that a change in an accounting estimate resulting from new information or new developments is not a correction of an error. In addition, the effects of the change in a figure or measurement technique used to develop an accounting estimate constitute a change in accounting estimates if those changes do not result from the correction of errors in a previous period.

The amendment will be applied prospectively to annual periods beginning on January 1, 2023 or thereafter. Early adoption is permitted.

Note 3 - Cash and Deposits in Banks

	As of December 31	
	2022	**2021**
Composition:	**NIS in thousands**	
In Israeli currency - interest-bearing deposits	**37,937**	43,826
In foreign currency	**4**	1
	37,941	43,827

Note 4 – Short term deposits

	As of December 31	
	2022	**2021**
Composition:	**NIS in thousands**	
Deposit at fixed interest of 3.1%	**10,087**	-

Note 5 - Held-for-Trading Securities

	As of December 31	
	2022	**2021**
	NIS in thousands	
Financial assets classified as held-for-trading at fair value through profit or loss:		
Government bonds and government loans	**104,172**	106,415
Israeli and international stocks	**23,382**	30,456
	127,554	136,871

Note 6 - Trade Receivables

	As of December 31	
	2022	**2021**
	NIS in thousands	
Credit card companies	**20,338**	21,000
Banks	**317**	219
Other debts	**1,304**	1,147
Total trade receivables	**21,959**	22,366

Note 7 - Other Accounts Receivable

	As of December 31	
	2022	**2021**
	NIS in thousands	
Other accounts receivable:		
Prepaid expenses	**2,794**	1,919
Related company in respect of reimbursement of expenses	**583**	2,711
Vehicle deposits	**49**	20
Other	**21**	3
Total other accounts receivable	**3,447**	4,653

Note 8 - Property, Plant and Equipment, Net

The composition of property, plant and equipment by main groups, and the movement therein during the years 2022 and 2021, were as follows:

	Computers and electronic equipment	Backup facility	Leasehold improvement, furniture and equipment	Total
	NIS in thousands			
2022:				
Cost				
Balance as of January 1, 2022	21,770	2,848	10,283	34,901
Acquisitions this year	4,304	-	(*) 7,536	11,840
Disposals this year	(3)	-	-	(3)
Balance as of December 31, 2022	26,071	2,848	17,819	46,738
Accumulated depreciation				
Balance as of January 1, 2022	**13,222**	**2,687**	**2,220**	**18,129**
Depreciation during the year	**2,789**	**28**	**901**	**3,718**
Disposals this year	-	-	-	-
Balance as of December 31, 2022	16,011	2,715	3,121	21,847
Depreciated cost as of December 31, 2022	10,060	133	14,698	24,891

(*) Most of the purchases this year in respect of leased improvements, furniture and equipment are from a related party (hereinafter: "Masav"), for more details see Note 17.

	Computers and electronic equipment	Backup facility	Leasehold improvement, furniture and equipment	Total
2021:				
Cost				
Balance as of January 1, 2021	20,546	2,848	10,198	33,592
Acquisitions this year	1,230	-	85	1,315
Disposals this year	(6)	-	-	(6)
Balance as of December 31, 2021	21,770	2,848	10,283	34,901
Accumulated depreciation				
Balance as of January 1, 2021	**10,318**	**2,659**	**1,655**	**14,632**
Depreciation during the year	**2,905**	**28**	**565**	**3,498**
Disposals this year	**(1)**	**-**	**-**	**(1)**
Balance as of December 31, 2021	13,222	2,687	2,220	18,129
Depreciated cost as of December 31, 2021	8,548	161	8,063	16,772

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 9 - Intangible Assets, Net

The composition of intangible assets by main groups, and the movement therein during the years 2022 and 2021, is as follows:

	Software and licenses	Projects under construction	Total
2022:			
Cost			
Balance as of January 1, 2022	14,622	8,044	22,666
Acquisitions this year	808	2,043	2,851
Balance as of December 31, 2022	15,430	10,087	25,517
Accumulated depreciation			
Balance as of January 1, 2022	13,565	7,262	20,827
Depreciation during the year	684	286	970
Balance as of December 31, 2022	14,249	7,548	21,797
Depreciated cost as of December 31, 2022	1,181	2,539	3,720

	Software and licenses	Projects under construction	Total
2021:			
Cost			
Balance as of January 1, 2021	14,214	8,044	22,258
Acquisitions this year	408	-	408
Balance as of December 31, 2021	14,622	8,044	22,666
Accumulated depreciation			
Balance as of January 1, 2021	12,536	6,787	19,323
Depreciation during the year	1,029	475	1,504
Balance as of December 31, 2021	13,565	7,262	20,827
Depreciated cost as of December 31, 2021	1,057	782	1,839

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 10 - Leases

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

   A. The Company has lease agreements including office building, backup facility 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, and ten years in total. The Company believes that exercising the option is highly likely. In accordance with the separation outline of the two companies and the agreements between them, on May 24, 2022, Masav moved from the shared offices to its new offices and in September 2022, the Company and Masav signed an addendum to the lease agreement assigning Masav's rights in the offices to the Company, which was approved as a non-exceptional transaction. Accordingly, the Company recognized a right of use asset and a lease liability as detailed below.

      2. In April 2021, the Company signed an agreement with Masav, jointly and severally, (with each company assuming 50% of the rental costs), for leasing a backup facility for a five-year period (as of January 11, 2020) with an option to extend by two additional periods of five years each, and ten years in total.

      3. 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.

Note 10 - Leases (Cont.)

2. Right-of-use assets

	The Company's offices	Vehicles	Backup facility	Total
	NIS in thousands			
Cost				
Balance as of January 1, 2022	9,647	1,993	2,957	14,597
Additions during the year:				
Additions in respect of new leases during the period	9,192	1,160	-	10,352
Disposals from right-of-use assets in respect of leases discontinued in the period	-	(584)	-	(584)
Changes in respect of linkage to CPI	695	78	134	907
Balance as of December 31,	19,534	2,647	3,091	25,272
Accumulated depreciation				
Balance as of January 1, 2022	1,730	727	325	2,782
Additions during the year:				
Depreciation and	975	851	338	2,164
Disposals from right-of-use assets	-	(462)	-	(462)
Balance as of December 31,	2,705	1,116	663	4,484
Depreciated cost as of December 31, 2022	16,829	1,531	2,428	20,788

	The Company's offices	Vehicles	Backup facility	Total
	NIS in thousands			
Cost				
Balance as of January 1, 2021	9,445	1,482	-	10,927
Additions during the year:				
Additions in respect of new leases during the period	-	1,181	2,892	4,073
Disposals from right-of-use assets in respect of leases discontinued in the period	-	(697)	-	(697)
Changes in respect of linkage to CPI	202	27	65	294
Balance as of December 31, 2021	9,647	1,993	2,957	14,597
Accumulated depreciation				
Balance as of January 1, 2021	1,149	668	-	1,817
Additions during the year:				
Depreciation and amortizations	581	645	325	1,551
Disposals from right-of-use assets in	-	(586)	-	(586)
Balance as of December 31, 2021	1,730	727	325	2,782
Depreciated cost as of December 31, 2021	7,917	1,266	2,632	11,815

Note 10 - Leases (Cont.)

3. Lease liabilities - analysis of repayment dates

	Principal payments	Interest payments	Total forecasted cash flow
	NIS in thousands		
First year - current maturities	2,120	704	2,824
Second year	1,885	648	2,533
Third year	1,537	593	2,130
Fourth year	1,483	545	2,028
Fifth year	1,532	496	2,028
Sixth year and thereafter	12,815	2,059	14,874
Non-current liabilities	19,252	4,341	23,593
Total lease liabilities	**21,372**	**5,045**	**26,417**

4. Amounts recognized in the statement of profit or loss

	Year ended December 31, 2022	Year ended December 31, 2021
	NIS in thousands	
Interest expenses in respect of lease liability	**556**	356
Depreciation expenses	**2,164**	1,551
Total expenses in respect of lease	**2,720**	1,907

5. Amounts recognized in the statement of cash flows

Cash flows used in lease transactions – cash outflows for financing activities – NIS 1,915 thousand (2021 – NIS 1,360 thousand)
Interest payments – cash outflows for operating activities – NIS 556 thousand (2021- NIS 356 thousand)
Total cash outflows for leases – NIS 2,487 thousand (2021 - NIS1,763 thousand).

Note 11 - Taxes on Income

A. Composition:

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
Current taxes in respect of the reported year	**11,100**	12,450	8,400
Current taxes in respect of prior years	**169**	(159)	-
Total current taxes	**11,269**	12,291	8,400
Add (less):			
Deferred taxes in respect of the reported year (see section B below)	**(914)**	884	(238)
Total taxes on income	**10,355**	13,175	8,162

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 section d below.
Deferred tax assets and liabilities refer to the following items:

	In respect of employee benefits - carried to the statement of profit or loss	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, 2021	756	1,179	(208)	(475)	1,252
Change in 2021:					
Carried to the statement of profit or loss	(247)	-	(60)	(577)	(884)
Changes carried to other comprehensive income	-	(195)	-	-	(195)
Balance as of December 31, 2021	509	984	(268)	(1,052)	173
Change in 2022:					
Carried to the statement of profit or loss	**(103)**	**-**	**(35)**	**1,052**	**914**
Changes carried to other comprehensive income	**-**	**(423)**	**-**	**-**	**(423)**
Balance as of December 31, 2022	**406**	**561**	**(303)**	**-**	**664**

Note 11 - 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 profit or loss:

	As of December 31		
	2022	**2021**	**2020**
	NIS in thousands		
Profit before taxes on income, including from discontinued operations	**34,440**	57,732	35,282
Statutory tax rate	**23.0%**	23.0%	23.0%
Tax liability based on the statutory tax rate	**7,921**	13,278	8,115
Increase (decrease) of the tax liability in respect of:			
Losses from marketable securities for which deferred taxes were not calculated	**1,650**	-	-
Taxes for previous years	**168**	(159)	-
Non-deductible expenses *	**557**	23	23
Others, net	**59**	33	24
Provision for taxes on income	**10,355**	13,175	8,162

(*) in 2022 includes a total of NIS 492 thousand for share-based payments that are non-deductible .

D. Tax rate

The relevant corporate tax rate for the Company in 2020-2022 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, 2022 and 2021 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 2017 are considered final tax assessments, subject to the terms specified in the Income Tax Ordinance.

Note 12 - Other Accounts Payable

	As of December 31	
	2022	2021
	NIS in thousands	
Expenses payable in respect of payroll and related expenses [(1)]	**10,034**	9,334
Expenses payable and miscellaneous	**2,105**	2,981
Government institutions	**894**	1,569
Total other accounts payable	**13,033**	13,884

[(1)] See Note 13.

Note 13 -Assets and Liabilities for Employee Benefits

A. Composition

Presented below are post-employment benefit obligations:

	As of December 31	
	2022	**2021**
	NIS in thousands	
Excess of post-retirement obligations, net – presented in current liabilities	**953**	-
Excess of post- retirement obligations, net – presented in non-current liabilities	**-**	(792)

Presented below is the composition of other employee benefit obligations:

	As of December 31	
	2022	**2021**
	NIS in thousands	
Presented under current liabilities:		
Liability for leave pay	**3,596**	3,599
Institutions, employees and other payroll-related liabilities	**6,220**	5,554
Obligation to adjustment benefit	**218**	181
Total current obligation	**10,034**	9,334
Presented under non-current liabilities:		
Liability for jubilee benefits (1)	**1,342**	1,915
The Company's total employee benefit obligation	**1,342**	1,915

(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 Company'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.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

(1) Defined contribution plans
Some of the severance payments are subject to the terms of section 14 of the Severance Pay Law, -1963, which prescribes that the Company's current 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 2022, the Company transferred a total of NIS 739 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	
	2022	**2021**
	NIS in thousands	
Total liability (C,2)	**(17,007)**	(19,366)
Fair value of plan assets (C,3)	**17,960**	18,574
Excess of assets over liabilities (liabilities over assets) included in noncurrent assets (noncurrent liabilities)	**953**	(792)

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

C.2 Total liability

	As of December 31	
	2022	**2021**
	NIS in thousands	
Liability at beginning of year	**19,366**	22,797
Current service cost	**774**	766
Interest cost, net	**490**	470
Actuarial loss (gain)	**(2,586)**	212
Benefits paid	**(1,037)**	(4,879)
Defined benefit liability at end of year	**17,007**	19,366

C.3 Fair value of plan assets

	As of December 31	
	2022	**2021**
	NIS in thousands	
Fair value of plan assets at beginning of year	**18,574**	21,102
Projected return on plan assets	**478**	441
The Company's contributions to the plan	**739**	897
Benefits paid	**(1,037)**	(4,879)
Transfer of profit to provident fund	**-**	(44)
Actuarial loss (gain) -Remeasurements	**(794)**	1,058
Fair value of plan assets at end of year	**17,960**	18,575

C.4 Expenses in respect of employee rights recognized in the statement of profit or loss

	As of December 31	
	2022	**2021**
	NIS in thousands	
Current service cost	**774**	766
Interest, net	**12**	29
Transfer of profit to provident fund	**-**	44
Total expenses in respect of employee benefits in the statement of profit or loss	**786**	839

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

C.5 Amounts recognized in other comprehensive income

	As of December 31	
	2022	2021
	NIS in thousands	
Actuarial gain	**1,792**	846

C.6 Actuarial assumptions

Main actuarial assumptions as of the reporting date

	As of December 31		
	2022	2021	2020
		%	
Discount rate as of December 31	**5.09**	2.60	3.11
Projected rate of return on plan assets as of January 1	**2.60**	2.27	3.16
Anticipated rate of salary increases for employees	**3.00**	3.00	3.98
Anticipated rate of salary increases for officers	**4.50**	3.00	3.98

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

	As of December 31	
	2022	2021
	NIS in thousands	
Present value of the liability at beginning of year	**181**	300
Current service cost	**78**	-
Interest expenses	**6**	-
Past service cost	**-**	181
Benefits paid	**-**	(299)
Actuarial gain (loss)	**(47)**	(1)
Present value of the liability at end of year	**218**	181
Nominal return on plan assets	**5.77%**	0.00%

E. The Company's executive remuneration policy

The Company's executive remuneration policy was approved on November 11, 2018. In accordance with Regulation 1 of the Companies Regulations (Expedients Regarding Obligation to Establish Remuneration Policy) -2013, the remuneration 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.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

On December 30, 2021, the Company's Board of Directors approved the grant of 792,652 convertible options to ordinary shares of NIS 0.0001 par value of the Company, to the CEO and officers and employees of the Company. On February 13, 2022, the general meeting of the Company approved the amendment of the Company's Remuneration Policy, as part of which an update was made to the annual maximums of the value of capital components and the range of the possible remuneration ratio in section 66 of the existing remuneration policy and cancelling section 51 of the remuneration policy relating to adjustment of the annual maximum if maximum capital remuneration is granted without amendments to the other terms of the policy.

The remuneration policy refers to all the tenure and employment of officers including the maximum possible ratio between the variable remuneration and the fixed remuneration, the fixed remuneration component (including fixed salary, social benefits, related conditions and additional benefits) and employee retirement conditions, as well as the framework and conditions for grant of annual bonus in each of the policy years.

In accordance with, and subject to, the terms of the remuneration 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.

Eligibility of all Company employees for annual bonuses
Annually, 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 remuneration policy, including the thresholds 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.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

Thresholds 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 thresholds:

- 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, on the 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.

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 officers, even though the Company does not meet the thresholds 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) average monthly salaries of the officer.

Insofar as a decision has been reached to distribute a bonus, as stated above, the Board of Directors is entitled, at 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 thresholds in that year.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

CEO bonus

On June 17, 2021, the shareholders' meeting approved the tenure of the Company's CEO, Mr. Eitan Lev Tov, the main points of which are:

Monthly salary - Mr. Lev Tov will be entitled to a salary of NIS 72,000 (gross) per month; the salary is not index-linked;

Performance-based grant - Mr. Lev Tov will be entitled to a variable and performance-based grant, for measurable targets in accordance with the Company's remuneration policy where in respect to the provisions of section 38.3 of the remuneration policy the following changes will apply: the board of directors will select at least two targets (with no maximum) out of eight targets listed in such section where the weight of each of them should not exceed 70% (without a minimum).

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 (as updated upon granting the options to the CEO); the bonus cap for the discretionary component may not exceed two salaries.

Additional bonus
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 and a signing bonus according to the conditions determined in the remuneration policy.

Refund of variable compensation
An officer is required to refund the Company bonus amounts paid in accordance with the remuneration 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 remuneration to an officer of the Company will be granted and paid to them on condition that it will be refundable 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 in the Company's financial statements.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

Collective agreements

On November 15, 2018, a special collective agreement was signed between the Company and Masav, 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% (average) 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.

Note 13 -Assets and Liabilities for Employee Benefits (Cont.)

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.

On December 7, 2021, a special collective agreement was signed regarding the separation of the companies – Shva and Masav. As part of this agreement, the employees' union was separated for each of the companies separately and the Company's commitment to safeguard the employees' rights and non-infringement as a result of the companies' separation was established, as well as changes to the 2018 agreement in the Company's participation amounts in the employees' union budget and the finance of academic studies for the employees and their children in immaterial amounts.

Upon the expiration of the collective agreement dated November 15, 2018, the Company and the employees' union began a process of negotiation and formulation of a new collective agreement, in lieu of the previous agreement. As of the date of writing the report, the negotiations have not yet ended.

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 profit or loss.

(2) **Paid leave**

- Vacation leave - The Company accrues the liability for vacation pay over 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 profit or loss.
- Sick leave - The Company does not accrue liabilities in respect of sick leave days to be used during the current service period.

Note 14 - Equity

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

	As of December 31, 2022 and 2021	
	Number of shares	
	Registered	Issued and paid-up
Ordinary shares of NIS 0.0001 par value each	**1,000,000,000,000**	**40,000,000**

Rights associated with ordinary shares

The ordinary shares confer upon holders 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 paid, or credited as paid, 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;
- Upon 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 paid, or credited as paid, 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, -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 of the reporting date, such restrictions do not apply.

Note 14 – Equity (Cont.)

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.

C. Distributed dividends

On March 29, 2022, the Company's board of directors decided to distribute a dividend in the amount of NIS 22,000 thousand (approximately NIS 0.55 per share) from the profits of 2021. The dividend was distributed on April 18, 2022.

D. Share based payment

1. Convertible options to shares

   On December 30, 2021, the Company's Board of Directors approved the grant of 792,652 convertible options to ordinary shares of NIS 0.0001 par value of the Company, to the CEO and officers and employees of the Company. On February 13, 2022, the Company's general meeting approved the grant of options to the CEO of the Company and amending the Company's remuneration policy. During February, April and June 2022, 742,606 options were allocated to the offerees, including the CEO of the Company. The employees will be entitled to exercise the options at the end of the vesting periods as follows: 50% at the end of two years from the date of their grant, 25% at the end of 3 years from the date of their grant and the remaining 25% at the end of 4 years from the date of grant. The options can be exercised until the end of two years from the vesting date. An option that is not exercised by that date will expire. The exercise price of the options is determined according to the date of issuance.
   The conversion of the warrants into the Company's shares will be by the "net exercise in shares" method ("Cashless").

2. The movement in the number of options to shares and the weighted averages of their exercise prices are as follows:

	Number of options	**Weighted average exercise price**
		NIS
Outstanding at the beginning of the year	-	-
Granted	**742,606**	**24.87**
Forfeited	-	-
Expired	-	-
Exercised	-	-
Outstanding at the end of the year	**742,606**	**24.87**
Exercisable at the end of the year	-	-

Note 14 – Equity (Cont.)

3. Expenses recognized in profit or loss

   The amounts of expenses recognized in the Company's profit or loss in 2022 for granting of employee options are NIS 2,139 thousand.

   The plans are supposed to be conducted within the framework of rules established for this matter in section 102 of the Income Tax Ordinance.

Note 15 - Operating, General and Administrative Expenses

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
Payroll and related expenses	**46,776**	39,150	31,931
Rent and office maintenance	**1,527**	866	711
Hardware and software maintenance	**7,102**	4,859	4,907
Professional services	**3,697**	3,648	4,005
Salary of the Board members	**2,149**	2,587	1,867
Insurance	**1,195**	812	610
Telecommunications	**567**	583	743
Depreciation and amortization	**6,852**	6,553	5,897
Vehicle maintenance	**553**	581	434
Professional courses and literature	**290**	158	98
Others	**744**	281	448
Total operating general and administrative expenses	**71,452**	60,078	51,651

Note 16 - Finance Income (expenses), Net

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
Interest income from held-for-trading securities, net	**2,758**	2,829	2,548
Gains (losses) from disposal and changes in fair value of held-for-trading securities	**(13,731)**	5,051	(291)
Management fees on securities	**(169)**	(155)	(157)
Total income (expenses) from held-for-trading securities, net	**(11,142)**	7,725	2,100
Interest income from institutions	**31**	41	-
Finance expenses in respect of leases	**(556)**	(356)	(331)
Exchange rate differences	**6**	14	(43)
Other finance income (expenses)	**270**	(22)	4
Total finance income (expenses), net	**(11,391)**	7,402	1,730

Note 17 - Contingent Liabilities and Commitments

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

B. Commitments

1. Rental agreements

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 companies' 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 1,075 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.

In accordance with the decision of the Commissioner of Competition and the separation outline, on May 24, 2022, Masav moved from the shared offices to its new offices and in September 2022, the Company and Masav signed an addendum to the lease agreement assigning Masav's rights in the offices to the Company, further to the understandings reached between the parties.
For this matter, see note 10, section 1.a(1), as well as the commissioner's decisions regarding the separation of the Company and Masav in section C below

In April 2021, the Company signed an agreement, jointly and severally, with Masav (each bearing 50% of the rental cost), for leasing a backup facility for five years (as of January 11, 2020) with an option to extend for two additional periods of five years each, and in total ten years.

2. Charging agreement – Shva -Masav

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 understandings that had existed between the Company and Masav until that date, with immaterial impact on the Company. On June 12, 2019, a new charging agreement was signed, instead of the aforementioned agreement (hereinafter: the “**Charging Agreement**”).

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;

Note 17 - Contingent Liabilities and Commitments (Cont.)

(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;

The entry into force of the charging agreement was conditional on the Company becoming a public company. The charging agreement was signed for a period of five years, starting on April 1, 2019 and ending on March 31, 2024, subject to right of termination before the end of the agreement period subject to prior notice as detailed below and it will be automatically extended for an additional indefinite period and will remain in effect as long as one of the parties has not exercised its right to terminate the agreement (hereinafter each period as stated: "the **extended period**"). During the extended period, each of the parties may terminate the agreement, subject to 36 months' prior written notice. In accordance with section 9.5.9 of the charging agreement, the above shall not apply in the event that the regulation forces the parties to stop providing one or all of the services included in this agreement. In this case, the Company and Masav will work together to formulate an agreed separation outline.

3. Transition to a temporary customer supplier model - Shva - Masav

In accordance with the terms of the separation outline between the Company and Masav that was approved by the court and the Competition Authority, as of June 1, 2022, one company will not bear the costs of employing employees of the other company. Therefore, and in view of the short schedule established as part of the separation outline by the Competition Authority, the Company and Masav transferred to a temporary customer supplier model in accordance with the charging agreement between them.

The following are the principles of the transition to a customer supplier model in accordance with the temporary agreement in this matter:

a. It was agreed to transfer to a temporary customer-client model for HR services.
b. The model entered into force on June 1, 2022, and will be in effect until September 30, 2022 or until the formation of a permanent agreement, whichever is later, and in any case no later than June 15, 2023, as detailed below:
   i. The first extension period: If the companies do not sign a permanent agreement by September 30, 2022, the temporary agreement will be extended for another period of three months, until January 1, 2023.
   ii. The second extension period: If the companies do not sign a permanent customer supplier agreement by January 1, 2023, the temporary agreement will be extended for another period of up to six months, and in any case no later than June 1, 2023 (hereinafter: "the second extension").

c. The costs of the services during the period of the temporary agreement will be based on the average adjusted cost in 2021 as paid by the companies one to the other (which includes an average salary update in July each year of 3% as stipulated in the collective agreement), based on a similar scope of services from 2021 and in accordance with the lists compiled by the companies.

Note 17 - Contingent Liabilities and Commitments (Cont.)

d. In addition, as part of the temporary agreement, the principles for the formation of a permanent agreement were determined:

1. For the purpose of formulating the permanent agreement, the companies began a mediation process starting on June 1, 2022, and for that purpose an agreed mediator was appointed.
2. The companies each separately entered into agreement with an agreed external financial advisor.
3. Concurrently with the mediation process, the companies will work to approve an agreed arbitration outline within which the principles of the arbitration procedure and the powers of the agreed arbitrator will be defined.
4. The arbitration outline that will be agreed upon between the companies will be forwarded to the relevant organs of each company for approval.
5. After the approval of the arbitration outline by the two companies, since Shva is a public company and since the summons to the meeting and the results of the meeting are public, the arbitration outline will be submitted for approval by the general meeting after a decision has been made by the organs of the two companies.
6. To the extent that the organs of the companies approve the arbitration outline, then at the end of the second extension period, which is sovereign for both companies, will decide the disputes of the parties until June 15, 2023 including the determination of the final amount of service costs.
7. To the extent that the organs of the companies do not approve the arbitration outline or do not reach an agreed upon arbitration outline, then the companies undertake to make the most of their efforts to formulate the permanent agreement and undertake to bring the draft of the agreement as proposed by the mediator for approval of their organs in the second extension period. It is agreed that in this case, the permanent agreement will apply no later than June 1, 2023. It is clarified that as long as the companies do not reach a permanent agreement by June 1, 2023, this will not affect the continued provision of services according to this agreement, however the companies retain their rights and claims regarding their relations, including regarding the provision of services according to the temporary agreement, as of June 1, 2023.
8. The permanent agreement will include reference to all aspects, including the financial, legal and operational aspects between the companies and all that is required to ensure the availability of the services that the companies provide to each other. Until the formation of the permanent agreement, the temporary netting agreement between the companies will apply unless decided otherwise by the arbitrator and all as determined in writing in the arbitrator's appointment letter.
9. As part of the arbitration, the arbitrator may determine whether to retroactively apply the permanent agreement from an earlier date, which will not be earlier than January 1, 2023. To this end, the arbitrator will decide whether the extension of the temporary agreement as of January 1, 2023 was for justified reasons, or whether there was an unjustified delay by one of the companies as well as the legal interpretation relevant to section 9.5.1 of the charging agreement retroactively.
10. The companies may change by mutual agreement any of the above agreements.

Note 17 - Contingent Liabilities and Commitments (Cont.)

C. Decision of the Competition Commissioner

1. The Commissioner's exemption dated December 28, 2022 - 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 28, 2022 for a period of five years, until September 28, 2026 (hereinafter: the "Exemption Decision").

The exemption decision refers to several main points:

(a) As part of the exemption decision, the Commissioner did not accept the Company's request to cancel the condition which limits the areas of activity permitted and which requires that its entry into any additional area of activity be subject to the approval of the commissioner. Also, the Commissioner expressed her position that to the extent that the banks' share in the Company's shares was lower than the current situation, so that each bank's share would not exceed 5%, this was to significantly alleviate the competitive concerns, as per the commissioner's position, and to eliminate the need for this exemption.

(b) Under the exemption the Company may engage in the following areas of activity:

(1) Operation of an ATM switch;
(2) Operation of a charge cards switch and transaction processing and collection systems;
(3) Engagement in activities involving the Ashrait 96 protocol;
(4) Development, operation and distribution of the Ashrait PC software;
(5) End-to-end certification services for the EMV standard;
(6) Activities associated with the aforementioned fields of activity;
(7) Any additional field of activity that may be approved by the Commissioner.

(c) The terms of the services the Company is obligated to provide, including various instructions regarding the conditions for connecting to the Company's systems, as well as instructions regarding activity with manufacturers and the execution of end-to-end certifications to the EMV standard.

(d) Also, the exemption decision stipulates that the Company will publish on its website a rate for each of the services it provides within the Company's systems as defined in the definitions section, as follows: one or more of these: an ATM switch, a charge card switch and a transaction collection and processing system.

Note 17 - Contingent Liabilities and Commitments (Cont.)

2. **<u>Approval of the Competition Commissioner for the Company to engage in the provision of aggregate information</u>**

The foregoing is added to the Commissioner approval dated April 25, 2011, in which the Commissioner approved for the Company to engage in providing aggregate information based on the data stored in the Company's databases according to the conditions specified in the exemption decision.

3. **<u>The Company's request to engage in providing a financial information service</u>**

Under the conditions established within the Commissioner's exemption decision of September 24, 2017, the areas of activity in which the Company may engage were defined. In addition, the Company was also allowed to engage in any additional field of activity that the Commissioner would approve. In accordance with the aforementioned, the Company applied to the Commissioner with a request to engage in providing a financial information service in accordance with the Financial Information Service Law, 2021 (hereinafter: "Financial Information Service Law"). As part of this request, the Company stated that in its activity of providing information services, it is expected to allow the competitive activity in the field of open banking, by establishing an infrastructure separate from the controlled payment system, which will provide technological back-office services, aggregation services and a link (based on an API interface) between financial service providers (such as fintech companies and other financial entities) to all information sources in Israel (such as banks, credit card companies, institutional bodies, etc.).

After negotiations between the Company and the competition authority, including a conversation of concerns and a hearing, after the report period, on March 12, 2023, the commissioner's decision was made not to approve at this stage the Company's request to engage in the activity of providing a financial information service in accordance with the Financial Information Service Law because the current activity may raise concerns of harming competition.

According to the commissioner, since Shva is held by four banks that own approximately 40% ("the banks"), and since the banks have common interests regarding these holdings, the Company's activity in providing a financial information service as an aggregator may raise a number of competitive concerns, including a fear that the banks will not cooperate with aggregators who are expected to compete with Shva, there is a fear that the incentive of the banks to act as aggregators themselves will be harmed, and a fear that in the estimation of the Commissioner that Shva will become a significant factor in the provision of aggregation services and will exploit its position to harm competition in the provision of banking services. In this regard, it should be noted that the Commissioner emphasized that it seems that the Company itself has no interest in harming companies that offer products that compete with banks (for example, in the field of credit or payments) or companies that offer services aimed at increasing the comparability of customers, in a way that may motivate them to consume non-banking products, however it is a concern that the Company will act in a way that promotes the interest of banks, given their joint holdings therein.

Note 17 - Contingent Liabilities and Commitments (Cont.)

The Commissioner states in her decision that, as she stated in the exemption decision of December 28, 2023, the lower the share of the banks in the Company was, so that each bank's holding did not exceed 5%, it seems that this was to significantly alleviate the concerns that arise from the joint activity of the banks within their holdings in the Company, thereby making the need for the exemption granted unnecessary and naturally - in the limitation imposed on the Company's areas of activity.

Separation of the Company from Masav – separation outline

- On October 28, 2019, an application was received from the Competition Authority regarding the joint affiliations of the Company and Masav. In the application, the Competition Authority claimed that despite the change in the ownership structure of the Company that was carried out, and as part of the implementation of the provisions of the law to increase competition and reduce concentration in the banking market in Israel (Legislative Amendments) - 2017, as a result of which the major banks hold less than 50% of the Company's shares while the full share capital of Masav is still held by the five major banks, the Company and Masav continue to have significant relationships between them. In the opinion of the Competition Authority, seemingly, there may potential or actual competitive relationship between the Company and Masav and this in particular at the backdrop of the changes in the ownership structure of the Company. In view of the above, the Competition Authority believes that this is allegedly a restrictive arrangement which did not receive approval or a temporary permit from the competition court or exemption from the competition commissioner. In the conclusion of its application, the competition authority requested that the Company act immediately to bring to an end the alleged violation and correct the situation described above.
  On May 10, 2020, the Company, together with Masav, submitted a request for approval of a restrictive arrangement to the competition court at the Jerusalem District Court. As part of the application, which was submitted in light of the competition authority's position on the matter, the Company and Masav request the court to approve the continued cooperation between the companies that was actually removed and in practice for about 35 years and which, given its scope, crosses a significant part of the Company's activities and documents.
  The companies requested the court to approve the arrangement for a period of ten (10) years.

Note 17 - Contingent Liabilities and Commitments (Cont.)

Among other arguments in the motion and as part of the grounds for approving the motion, the companies noted the cost saving in terms of human capital and infrastructures that contributing to the operating efficiency that are translated to low rates.

It is also alleged by the companies that separation between the companies and discontinuing the cooperation amongst them may lead to high costs resulting in increased prices to passed to consumers. The Company was based on an opinion that was attached to the motion that estimated current costs (excluding separation costs) for the shared services which are expected to amount to NIS 15.3 million per annum representing 30.7% of the Company's operating costs as according to 2019 data.

- 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.

- On December 27, 2020, the Commissioner filed a motion with 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, as long as 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 that has not received approval from competition regulators. Therefore, the Commissioner said it was her duty to file the Motion to the court, requesting to exercise its powers and order to end this violation.

  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 a valid and serious argument that should be considered, namely, that the requested order may materially harm and destabilize the payment system and even substantially compromise the purpose of the principal 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 April 8, 2021, the Company and Masav submitted to the court a motion for temporary permit, as recommended by the Commissioner, to continue the existing restrictive arrangement (**the temporary permit**). The Company and Masav requested the court to order the issue of the temporary permit under the terms specified in the application after reaching agreements with the Commissioner in joint discussions with the Bank of Israel, and following an approval by the BoI to a proposed process for separating the managements of the Company and Masav.

Note 17 - Contingent Liabilities and Commitments (Cont.)

- According to the terms of the temporary permit, it was determined that by June 30, 2021, two separate CEOs would be appointed for each of the two companies; and the companies would submit to the Commissioner an outline for the activity of each of them by December 31, 2021. That outline will differentiate between services, activities or assets that require cooperation in the short term and those that also that require such cooperation in the long term. The outline also needs to elaborate the means that would be taken to mitigate competitive concerns resulting from such continued cooperation in the long run. According to the outline, all affiliations highlighted by the Bank of Israel need to be separated by February 28, 2022, including separation of the function managing the development of technology applications. Additionally, the outline needs to address additional affiliations that are not covered by the BoI outline, including infrastructure, computer systems and shared offices.

- On April 11, 2021, the Competition Court accepted the motion and granted a temporary permit to a restrictive arrangement between the Company and Masav, effective until January 31, 2022, subject to the terms and conditions in the motion.

- In accordance with the conditions set forth in the temporary permit, the companies work to appoint separate CEOs for the companies and began separating management functions. Accordingly, on May 3, 2021, the Company's Board of Directors decided to appoint Mr. Eitan Lev Tov as the Company's CEO. Mr. Lev Tov replaced the Company's CEO, Mr. Moshe Wolf, whose term as CEO ended at the end of June 2021.

- As stated, in accordance with the terms of the temporary permit, until December 2021, the Company and Masav are required to present an outline for each of the companies' activities - when the outline distinguishes between services, activities or assets in which short-term participation is required and those that require long term cooperation while providing an explanation of what measures will be taken to alleviate the competitive concerns from the continued long-term cooperation. In view of the regulators' requirement, the Company and Masav are required, inter alia, to separate the shared offices. In view of the aforesaid, the companies' managements reached agreements in principle, including remuneration for the leaving party for leasehold improvements and furniture, which the parties bore in equal parts in accordance with the charging agreement. As of the report publication date, the companies are working to settle the separation of the offices in the agreement but have not yet reached agreements on the subject.

- The Company and Masav worked to implement the remaining conditions in accordance with the schedules set forth in the temporary permit, including, working with the Bank of Israel and the Competition Authority to approve the separation outline and obtain approval for the extension of the temporary permit.

- On February 27, 2022, the Company and Masav submitted an application for approval of a restrictive arrangement on conditions with the consent of the Commissioner to the Competition Court.
  The Commissioner and the companies requested the court to approve in the conditions attached as an appendix to their application the restrictive arrangement between the companies submitted for the court's approval on May 10, 2020, until December 31, 2029 (the separation outline).

Note 17 - Contingent Liabilities and Commitments (Cont.)

Simultaneously with the submission of the application for approval of the separation outline, the companies' application for a temporary permit for the restrictive arrangement between them for a period of two months was submitted, in order to allow the court to decide on the application for approval of a restrictive arrangement and the recommendation of the Commissioner for a temporary permit was submitted.

The following are the main terms agreed upon between the parties:

1. Until December 31, 2027, all joint affiliations between the applicants will be completely disconnected, so that at the end of the date for approving the restrictive arrangement, no joint affiliations will remain between them and no services will be provided from one company to another that are not as part of the services they sell to the public.

2. Severing the joint affiliations will be done gradually and in a controlled manner. In general, affiliations that have a greater impact on competition and that may raise more significant competitive concerns will be separated sooner. Affiliates whose impact on competition is lesser and whose separation involves greater technical complexity will be separated later.

3. In the interim period until the complete separation of all affiliations, the applicants will cooperate in a manner that reduces the fear of reducing competition between them, and only between the officers required for a particular matter, in accordance with the conditions.

4. The terms and conditions require the documentation of the meetings and joint conversations of the companies' managements, in a manner that will allow the Commissioner, if necessary, to monitor the implementation of the terms and the affiliations among the applicants.

   The approval of the restrictive arrangement is valid until December 31, 2029.

Note 17 - Contingent Liabilities and Commitments (Cont.)

<u>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</u>:

- 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.

D. Claims and class actions

One claim was filed against the Company in the ordinary course of business.
Below are the main points of the legal process – Mitug claim v. Shva and Tamar Fund:

1. 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 allegations 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 the cause of action was established 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 allegations, and Hatamar Fund did the same.

   Evidentiary hearings have been scheduled for March 2021 and in December 2021, the parties submitted their summations.

Note 17 - Contingent Liabilities and Commitments (Cont.)

D. Claims and class actions

After the report period, on March 7, 2023, a ruling in Mitug's lawsuit was given by the District Court in Tel Aviv, where it was determined:

- That the ownership of the MultiXFS software belongs to Mitug and has not been transferred to the Company. However, the court ruled that the Company purchased, in accordance with contractual system between the Company and Mitug, 290 licenses to install the software in the ATM devices, and therefore the Company was entitled to transfer those 290 ATM devices in which the software was installed to Hatamar Fund as part of the transaction, contrary to what was claimed by Mitug and there was no infringement of Mitug's rights.

- Accordingly, the court ruled that "Shva was entitled to transfer to Hatamar Fund the copies for which it had acquired the use licenses from Mitug".

- In addition, it was determined that the transfer of one more copy (beyond the 290 copies) for which no consideration was paid to Mitug constitutes a violation of Mitug"s copyright as an "infringing copy".

- With regard to the additional copies that were installed on the Hatamar Fund devices (apparently there are several hundred additional copies), it was determined that "the copies of the software that were installed on additional ATM machines in Hatamar Fund were created in a manner contrary to the license agreements assigned to it and the conduct of the fund can be seen as a violation of the agreements or a violation of copyrights".

- It is not possible to establish a factual finding of transferring source code from Shva to Hatamar Fund.

- In light of these determinations:

    - The court prohibits the company from using the source code or transferring it to the Hatamar Fund or any third party.

    - Since the Company was entitled to transfer to Hatamar Fund the 290 copies for which it had paid, these copies do not entitle Mitug to any compensation. Mitug will probably be entitled to compensation from the Company only for the additional copy (No. 291) for which the Company did not pay Mitug a license fee - a value of 1,821 NIS.

    - Mitug will be entitled to compensation for the additional copies (beyond the 290 copies for which license fees were paid by Shva) that were installed in Hatamar Fund devices without a permit from Mitug after the transaction with Shva. The compensation is NIS 1,821 per copy.

    - Hatamar Fund will submit to the court a detailed account regarding the copies of the software that were installed on ATMs beyond the 291 copies received from Shva as well as regarding copies that it sold without leaving a copy in its hands.

    - The Company and Hatamar Fund will submit affidavits regarding the "financial components" arising from the contract between the Company and Hatamar Fund, if the following issues exist: (a) creating additional copies of the software; (b) transferring the source code or updating the software using the source code; c) transfer of the software to third parties".

- The completions of Hatamar Fund and the Company will be submitted by March 21, 2023.

- The financial charges will be determined after completions and instructions will be given regarding expenses.

Based on the ruling and in accordance with the estimates of the Company's legal advisors, the expected charge for the Company is NIS 1,821 (for the 291st copy of the software for which a user license was not purchased), and there may even be court costs. The main liability lies with Hatamar Fund, which created copies of the software without having a permission to do so.

Accordingly, no provision was included in the financial statements for the above.

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 Company'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. Eitan Lev Tov 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 Company 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.

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

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 Company'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) Exchange rate and inflation risk
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) Interest rate risk
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 carrying amount of financial assets represents the maximum credit exposure.
The maximum exposure to credit risk is as follows:

	As of December 31	
	2022	2021
	NIS in thousands	
Cash and deposits in banks	37,941	43,827
Short term deposits	10,087	-
Held-for-trading securities	127,554	136,871
Trade receivables	21,959	22,366
Other receivables	596	2,714
Total	198,137	205,778

C. Liquidity risk

The following table presents the contractual maturity periods of financial liabilities, in undiscounted amounts (including interest payments):

	As of December 31, 2022					
	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	3,561	-	-	-	3,561	3,561
Lease liability	2,824	2,533	2,130	18,930	26,417	21,372
Other accounts payable	8,529	-	-	-	8,529	8,529
Current tax liabilities	2,170	-	-	-	2,170	2,170
Total	17,084	2,533	2,130	18,930	40,677	35,632

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

	As of December 31, 2021					
	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	1,155	-	-	-	1,155	1,155
Lease liability	1,733	1,582	1,261	10,054	14,630	12,168
Other accounts payable	10,104	-	-	-	10,104	10,104
Current tax liabilities	4,599	-	-	-	4,599	4,599
Total	17,591	1,582	1,261	10,054	30,488	28,026

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:

	December 31, 2022			
		In foreign currency		
	In foreign currency	Linked to the consumer price index	Unlinked	Total
Assets				
Cash and deposits in banks	4	-	37,937	37,941
Short term deposits			10,087	10,087
Held-for-trading securities	3,452	50,038	74,064	127,554
Trade receivables	-	-	21,959	21,959
Other accounts receivable	-		596	596
Total financial assets	**3,456**	**50,038**	**144,643**	**198,137**
Liabilities				
Current maturities in respect of lease	-	2,120	-	2,120
Trade payables	-	-	3,561	3,561
Other accounts payable	-	-	8,529	8,529
Income tax payable	-	2,170	-	2,170
Lease liabilities	-	19,252	-	19,252
Total financial liabilities	**-**	**23,542**	**12,090**	**35,632**
Excess of financial assets over financial liabilities	**3,456**	**26,496**	**132,553**	**162,505**

Note 18 - Financial Instruments and Management of Financial Risks (Cont.)

	December 31, 2021			
	In foreign currency			
	In foreign currency	Linked to the consumer price index	Unlinked	Total
Assets				
Cash and deposits in banks	1	-	43,826	43,827
Held-for-trading securities	6,314	54,296	76,261	136,871
Trade receivables	-	-	22,366	22,366
Other accounts receivable	-	20	2,021	2,041
Total financial assets	**6,315**	**54,316**	**144,474**	**205,105**
Liabilities				
Current maturities in respect of lease	-	1,383	-	1,383
Trade payables	-	-	1,155	1,155
Other accounts payable	-	-	10,104	10,104
Income tax payable	-	4,599	-	4,599
Lease liabilities	-	10,785	-	10,785
Total financial liabilities	-	16,767	11,259	28,026
Excess of financial assets over financial liabilities	**6,315**	**37,549**	**133,215**	**177,079**

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 higher 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.

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, 2022		**As of December 31, 2021**	
	Equity (*)	**Profit (loss)(*)**	**Equity (*)**	**Profit (loss)(*)**
	NIS in thousands			
Increase of 5% in the consumer price index	1,325	1,325	1,878	1,878
Increase of 5% in the exchange rate	173	173	316	316
Increase of 5% in the interest rate	6,628	6,628	6,661	6,661

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, 2022				
		Fair value			
	Presented in balance sheet	Level 1	Level 2	Level 3	Total
	NIS in thousands				
Financial assets					
Cash and deposits in banks	37,941	37,941	-	-	37,941
Short term deposits	10,087	10,087			10,087
Held-for-trading securities	127,554	127,554	-	-	127,554
Trade receivables	21,959	21,959	-	-	21,959
Other accounts receivable	596	596	-	-	596
Total financial assets	198,137	198,137	-	-	198,137
Financial liabilities					
Current maturities in respect of lease	2,120	2,824	-	-	2,824
Trade payables	3,561	3,561	-	-	3,561
Other accounts payable	8,529	8,529	-	-	8,529
Income tax payable	2,170	2,170	-	-	2,170
Lease liabilities	19,252	23,593	-	-	23,593
Total financial liabilities	35,632	40,677	-	-	40,677

	As of December 31, 2021				
		Fair value			
	Presented in balance sheet	Level 1	Level 2	Level 3	Total
	NIS in thousands				
Financial assets					
Cash and deposits in banks	43,827	43,827	-	-	43,827
Held-for-trading securities	136,871	136,871	-	-	136,871
Trade receivables (*)	22,366	-	-	22,366	22,366
Other accounts receivable (*)	2,714	-	-	2,714	2,714
Total financial assets	205,778	180,698	-	25,080	205,778
Financial liabilities					
Current maturities in respect of lease	1,383	1,733	-	-	1,733
Trade payables	1,155	1,155	-	-	1,155
Other accounts payable	13,884	-	-	13,884	13,884
Income tax payable	4,599	4,599	-	-	4,599
Lease liabilities	10,785	12,897	-	-	12,897
Total financial liabilities	31,806	20,384	-	13,884	34,268

(*) reclassified

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	
	2022	2021
	NIS in thousands	
Assets:		
Cash and deposits in banks (1)	**37,941**	43,827
Short term deposits	**10,087**	-
Held-for-trading securities (1)	**127,554**	136,871
Receivables - Related company (2)	**583**	2,711
Trade receivables and income receivable (banks and companies issuing and clearing credit cards) (3)	**7,612**	6,399

(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) Refers to only two companies issuing and clearing credit cards that are still defined as interested parties.

D. Summary of business results with interested parties and related parties

	For the year ended December 31		
	2022	2021	2020
	NIS in thousands		
Revenues from related company (1)	**10,626**	14,381	15,059
Expenses and purchases to related company (1)	**10,418**	4,854	4,775
Revenue from the provision of services (2)	**35,343**	32,882	24,882
Finance income (expenses), net (3)	**2,868**	2,675	2,062

(1) Revenue, reimbursement of expenses, etc. that were received from / paid to Masav, as specified in Note 17B2. In 2022, NIS 7.5 million was included in respect of purchase of leasehold improvements and furniture from Masav.
(2) Revenues from credit card companies, banks that are the Company's shareholders, and entities associated with them; in 2022 and 2021, refers to only two companies issuing and clearing credit cards that are still defined as interested parties.

(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), -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 be any of the transaction types specified below, and which will serve the Company, among others, 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 the case may be, and does not exceed the materiality threshold for negligible transactions, as specified below.

1. **Evaluation of the transaction's market conditions:**
   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 the case may be.

2. **Evaluation of materiality:**
   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. **Qualitative considerations:**
   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.

Note 19 - Interested Parties and Related Parties (Cont.)

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, as per the relative share of the transaction in that year.

F. Liability for indemnification of directors and officers

According to the remuneration 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 with the updated legal provisions 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, -1988, as amended within the Restrictive Trade Practices Law (Amendment No. 13), -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 remuneration 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 occurrence 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 occurrence 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		
	2022	**2021**	**2020**
Composition:	**NIS in thousands**		
Salary and associated benefits to the Company's employed CEO [(1)]	**1,583**	2,636	1,888
Actuarial changes (2020 – including changes from retirement agreement)	**142**	(894)	(898)
Participation of related company in the aforementioned costs (*)	**-**	(368)	(294)
Cost of share based payment	**705**	-	-
Costs after participation of a related company	**2,430**	1,373	696
Number of persons	**1**	2	1
Remuneration to directors who are not employees of the Company	**2,149**	2,587	1,867
Number of directors	**9**	9	9
Insurance premium in respect of directors and officers	**343**	280	172

1. As specified in Note 13, 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 2022 and 2021, as specified above, include the bonuses approved in 2022 and 2021, in respect of 2021 and 2020, respectively.

   On December 31, 2000, Mr. Wolf announced his desire to terminate his term as CEO of the company, with the termination date ending on June 30, 2021. The reports included a reduction in the actuarial provision for shortening the non-compete period and in lieu of an advance notice by payment in the amount of NIS 0.6 million.
   (*)Regarding the participation of a related company in 2022, see note 17 2.

Note 19 - Interested Parties and Related Parties (Cont.)

H. Benefits to key management personnel:

	For the year ended December 31		
	2022	**2021**	**2020**
Composition:	NIS in thousands		
Payroll, management fees and benefits	**4,370**	2,949	3,704
Actuarial changes (2020 – including changes from retirement agreement)	**163**	417	(744)
Bonuses	**683**	435	760
Cost of share based payment	**1,516**	-	-
Participation of related company in the aforementioned costs (*)	**-**	(788)	(979)
Participation of related company in actuarial changes	**6,733**	3,012	2,742
Costs after the participation of a related company	**5**	4	4
Number of persons	**4,370**	2,949	3,704

(*)Regarding the participation of a related company in 2022, see note 17 2.

Note 20 - Subsequent Events

- On March 7, 2023, a judgment in the Mitug lawsuit was given by the District Court in Tel Aviv, for details see note 17 d.

- On March 12, 2023, the Commissioner's decision was made not to approve at this stage the Company's request to engage in the activity of providing a financial information service in accordance with the Financial Information Service Law, 2021, because at the current time such activity, according to her, may raise concerns of harming competition. For details, see Note 17c.

- On March 28, 2023, the Company resolved to distribute a dividend in the amount of NIS 22,000 thousand (approximately NIS 0.55 per share) from the 2022 earnings.

PART D
Additional Details
Regarding the Corporation

Table of Contents:

Regulation 10A: The Corporation's condensed statements of comprehensive income, by quarters, in 2022 (NIS in thousands)

	In 2022				
	Q1	Q2	Q3	Q4	2022
	Unaudited				Audited
	NIS in thousands				
Revenues					
From the provision of services to clearing entities and issuers	25,893	27,050	27,670	27,882	108,495
From the provision of services to others	2,125	2,164	2,355	2,144	8,788
Total revenues	28,018	29,214	30,025	30,026	117,283
Operating, general and administrative expenses	16,208	17,154	19,108	18,982	71,452
Operating profit	11,810	12,060	10,917	11,044	45,831
Finance expenses from marketable securities, net	(3,209)	(4,767)	(2,265)	(901)	(11,142)
Finance income	31	25	41	228	325
Finance expenses	(98)	(103)	(187)	(186)	(574)
Finance expenses, net	(3,276)	(4,845)	(2,411)	(859)	(11,391)
Profit before taxes on income	8,534	7,215	8,506	10,185	34,440
Income tax	2,031	2,939	3,096	2,289	10,355
Net profit attributable Company shareholders	6,503	4,276	5,410	7,896	24,085
Net earnings per share attributable to shareholders (in NIS)	0.16	0.11	0.14	0.20	0.60
Net income	6,503	4,276	5,410	7,896	24,085
Other comprehensive loss before tax:					
Adjustments of liabilities in respect of employee benefits	846	(91)	288	796	1,839
Attributable tax impact	(194)	20	(66)	(183)	(423)
Other comprehensive loss attributable to shareholders, after taxes	652	222	222	320	1,416
Comprehensive income attributable to shareholders	7,155	4,498	5,632	8,216	25,501

Regulation 20: Trading on the stock exchange - securities listed for trading - dates and reasons for suspension of trading

During the reporting year and up to the date of publication of the report, no trading breaks took place.

Regulation 21: Payments to interested parties and officers in 2022

Presented below are details regarding the compensation which was given in respect of 2022 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 *
Name	Position	Scope of position[1]	Stake in the Company's equity	Salary	Bonus [2]	Share-based payment	Management fees	Compensation of directors	Fee	Other **	Interest	Rent	Other	
Eitan Lev Tov [2]	CEO	100	-	1,122	360[4]	705	-	-	-	243	-	-	-	2,430
Meir Elberg[5]	VP Technology Development	100	-	802	166	260	-	-	-	52	-	-	-	1,280
Ofer Eden[6]	CFO	100	-	694	119	213	-	-	-	146	-	-	-	1,172
Gady Margalit [7]	VP Infrastructures	100	-	708	146	-	-	-	-	81	-	-	-	935
Mr. Guy Ram ([8])	VP Technology and Innovation	100	-	665	-	185	-	-	-	94	-	-	-	944
Shlomo Bisteri[9]	Chairman of the board of directors	40-60	-	-	-	-	-	567	-	-	-	-	-	567
Directors[10]	Directors	-	-	-	-	-	-	1,582	-	-	-	-	-	1,582

*

**Other includes food, clothing, telephone, holiday gift voucher, vehicle, 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) For details regarding options that were granted to officers see regulation 24.

(2) The amounts pertain to annual bonus for 2021 which were approved and paid in 2022. The financial statements for 2022 include a general (non-specific) provision for an annual bonus in respect of 2022 (hereinafter, jointly: the "**General Provision**"), in accordance with the Company's estimates. (The general provision was not included in the figures in the table).

(3) Mr. Eitan Lev Tov serves as the Company's CEO since July 2021, in accordance with the terms of the employment agreement signed between him and the Company on June 27, 2021. Below are the main points of Lev Tov's tenure: monthly salary of NIS 72,000 (gross); (which was updated in January 2023 to NIS 75,600 (gross) per month according to the approval of the remuneration committee and board of directors; the salary is not linked to the CPI; Performance-based grant - Mr. Lev Tov will be entitled to a variable and performance-based grant for measurable targets in accordance with the Company's remuneration policy where with respect to the provisions of Section 38.3 of the Remuneration Policy the following changes will apply: The Board of Directors will select at least 2 targets (without a maximum) out of the eight targets specified in said section, with each weight not exceeding 70% (without a minimum). The bonus amount will be as follows: for meeting 80% of the targets - 2 salaries; for meeting 90% of the targets - 3 salaries; for meeting 100% of the targets - 5 salaries; for meeting 150% or more of the targets - 2 additional salaries. The maximum grant for this component of a performance-based grant - up to 7 salaries. Accordingly, section 38.7 of the Remuneration Policy will not apply to the CEO. Discretionary grant - up to 2 salaries. Vehicle - The Company will make available to Mr. Lev Tov and for his work, a Skoda Superb vehicle or equivalent. The company will bear the fixed and variable expenses of the vehicle and the manager will bear the value of use; Annual leave - 26 days a year; Advanced study fund - The company will allocate on annual basis an amount equal to 7.5% of the salary to the advanced study fund for the CEO and the CEO will allocate an amount equal to 2.5% of the salary to the advanced study fund. Pension arrangement - the company will insure Mr. Lev Tov in a pension arrangement at the manager's choice (executive insurance, pension fund or a combination thereof) and in accordance with the general approval of section 14. Sick pay and convalescence allowance - Mr. Lev Tov is entitled to sick days and convalescence as acceptable; Advance notice - a 120-day mutual notice period. Non-compete - a non-compete commitment for 12 months from the end of the advance notice period; If the termination of the term of office is after a period of at least 36 months and the non-compete commitment has been fully met, a grant of 4 salaries will be paid. Insurance and indemnity - Mr. Lev Tov will be entitled to insurance for officers and a letter of exemption and indemnity, like the other officers in the company. On February 13, 2022, the general meeting of the Company's shareholders approved the allocation of 211,960 options to the CEO exercisable into 211,960 shares. Regarding the capital remuneration, the CEO agreed that the total annual monetary bonus will not exceed 7 salaries (instead of 9 Salaries as approved in the terms of his office and employment). For 2022, targets were set for the purpose of calculating the measurable portion of the CEO's grant based on meeting business development targets and new revenues (50%), availability (30%) and corporate governance - organizational structure and separation outline (20%).

(4) The indicated amount includes signing grant of 2 salaries – in the amount of NIS 144,000.

(5) 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. On February 22, 2022, 71,095 options exercisable into 71,095 ordinary shares were allocated to the VP Technology Development.

(6) Mr. Ofer Eden has been the Company's CFO since December 25, 2017, in accordance with the terms of the employment agreement as signed between him and the Company on December 25, 2017. Under the employment agreement, the CFO is entitled, in addition to the monthly salary, to social benefits that do not deviate from the standard practice (executive insurance, disability insurance, study fund, 24 vacation days per year, sick days and buffet). In addition, the company

provides a vehicle and a cellular telephone and each party may terminate the employment agreement with three months' advance notice. On February 22, 2002, , the CFO was allocated 58,362 options exercisable into 58,362 ordinary shares of the Company.

(7) Mr. Gadi Margalit has been employed by the Company since June 25, 2015 and serves as the Company's VP Infrastructure and is employed in accordance with the terms of the employment agreement as signed between him and the Company on June 25, 2015. Under the employment agreement, the VP Infrastructure is entitled in addition to the monthly salary to social benefits that do not deviate from the standard practice (executive insurance, disability insurance, study fund, 22 vacation days per year, sick days and buffet). In addition, the company provides a vehicle and a cellular telephone and each party may terminate the employment agreement with three months' advance notice. On February 22, 2002, the VP Infrastructure was allocated 58,583 options exercisable into 58,583 ordinary shares of the Company. On January 2, 2023, Mr. Margalit concluded his position at the Company.

(8) Mr. Guy Ram serves as the VP of Technology and Innovation in the Company as of March 20, 2022, according to the terms of the employment agreement as signed between him and the Company on January 27, 2022. As part of the employment agreement, the VP of Technology and Innovation is entitled, in addition to the monthly salary, to social benefits that do not deviate from the standard practice (managers' insurance, disability insurance, study fund, 24 vacation days per year, sick days and Buffet). In addition, the Company provides him with a vehicle and a cell phone. Each party may terminate the employment agreement with three months' notice.

(9) The tenure of Mr. Shlomo Bisteri as Chairman of the Company's Board of Directors was approved by the Company's shareholders' meeting on April 6, 2021, and entered into force on March 1, 2021. Mr. Bisteri is entitled to a monthly sum (management fee) of approximately NIS 38,000 plus VAT for the provision of services as chairman of the board at a scope of 40% of the position. The Company's Board of Directors may update the scope of the position, from time to time, in accordance with the Company's needs and accordingly the consideration will be updated in proportion to the consideration updated above and in any case, the monthly consideration will not be less than NIS 25,000 plus VAT. On June 29, 2022, the board of directors resolved to update the scope of position of the chairman of the board of directors to 60%. Effective from January 1, 2023, the Company's board of directors, as per the request of the chairman of the board of directors, resolved to reduce the scope of position bank to 40%.

(10) The specified amount refers to compensation which is given to directors (excluding the chairman of the board of 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 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. The annual compensation and compensation for participation in meetings for an expert external director in the Company is the maximum possible amounts of compensation for an expert external director, in accordance with the Fourth Addendum to the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), -2000 (the “Regulations”), as they will be from time to time, in accordance with the Company’s grade, as stated in the First Addendum to the Regulations, as will be from time to time. To the extent that a director does not meet the required conditions to be classified as an “expert external director” pursuant to the regulations, the director in question will be entitled to the maximum 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)
2022	10,626	(*) 10,418

* in 2022, an amount of NIS 7.5 million was included for purchasing leasehold improvements and furniture from Masav.

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 and amended on February 13, 2022 see note 13e of the financial statements.

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, details were provided regarding transactions of the Company with the banks, or in which the banks have a personal interest. Regarding transactions between the Company and Masav see Note 10 and Note 17 of the financial statements.

Regulation 24: Securities held by interested parties of the corporation on or about the publication date of the report

For details regarding holdings of interested parties in the Company on or about the reporting date, see the Company's immediate report regarding the list of interested party dated January 5, 2023 (reference number 2023-01-003678), 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	-	-
Employee options 02/22	742,606	-	-	742,606	-	-

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 August 8, 2022 (reference number 2022-01-081543), 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
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Has professional qualifications and financial expertise
Position performed in the Company, or in a subsidiary, related company, investee company or interested party of the 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 A program for training directors and officers for business companies from Bar Ilan University.
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. According to the director, he has expertise in the field of information security in light of his professional experience.
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
Independent or outside director:	Yes, independent director
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise and 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:	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:	**Merav Leshem**
ID number:	022647317
Date of birth:	29.10.1966
Address for service of process:	26 Hashoftim Tel Aviv
Citizenship:	Israeli
Membership in board committees:	Audit Committee, Remuneration Committee
Independent or outside director:	Yes, outside director
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:	August 31, 2022
Education:	LLB, Hebrew University, Master's degree in Hebrew literature, Ben Gurion University, Master's degree in business administration, Technion.
Activity during the last five years and details of other corporations in which they serve as a director:	Legal consultant and manager of the legal department, Tel Aviv Stock Exchange 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
Independent or outside director:	Yes, independent director
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 4, 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), Serves as a director at Techionity Ltd. According to the director, he has expertise in the field of cyber and information security in light of his professional experience.
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
Independent or outside director:	Yes, independent director
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:	President and Chairman of Achilles Security Ltd. According to the director, he has expertise in the field of cyber and information security in light of his professional experience.
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
Independent or outside director:	No
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise and 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:	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, VP of Parametrix Insurance, Chairman of the Board of Gaat Sharon Management and Investments Ltd., director in Keepit Ltd., director in S.M. Storage Solutions Ltd. and director in Capital Nature ltd According to the director, he has expertise in the field of cyber and information security in light of his professional experience.
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, Balance Sheet Committee, Remuneration Committee
Independent or outside director:	Yes, outside director
Accounting and financial expertise or professional qualifications:	Has accounting and financial expertise and 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:	13.11.2019
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, A member of the administration of the veteran pension funds Amitim, an external director at Solarair Renewable Energies Ltd. Compensation Fund for Employees of El Al Airlines.
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:	Director of Mataf Industrial and Financial Computing (a subsidiary of the International Bank)
Commencement date of tenure as a director:	1.1.2021
Education:	Graduate of Science in Industrial Engineering and Management from the Technion.
Activity during the last five years and details of other corporations in which they serve as a director:	Head of the Resources Division at the First International Bank Serves as a director in Mataf Industrial and Financial Computing Division.

	According to the director, he has expertise in the field of cyber and information security in light of his professional experience.
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, Head of Local Debt in the Unit of Government Debt Management at the Accountant General Division .
Relative of another interested party of the Company:	No

Regulation 26a: The Corporation's executive officers

Name:	**Eitan Lev Tov**
ID number:	22158943
Date of birth:	03/11/1965
Position in the Company, in a subsidiary or in an interested party:	CEO
Relative of another officer or interested party of the Company:	No
Education:	BA in Physics from Tel Aviv University.
Business experience in the last five years:	CEO of Soodexo Pass Israel Ltd. (Cibus Soodexo). VP of Sales, Cibus Sodexo Israel. CEO of Nifando Israel.
Tenure commencement date:	1.2.2014

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:	**Guy Ram**
ID number:	036443703
Date of birth:	26/02/1979
Position in the Company, in a subsidiary or in an interested party:	VP Technologies and Innovation
Relative of another officer or interested party of the Company:	No
Education:	BSc in Computer Science from the University of Haifa; MBA in Business Administration from the Technion;
Business experience in the last five years:	Deputy Head of the Information Systems Division, Maccabi Health Services; Acting VP of Information Systems Maccabi Health Services; Director of Core and Data Systems Development Department at CAL;
Tenure commencement date:	20.3.2022

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:	09.2020

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
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 Masav, CFO of Ilex Group, CFO of Assuta Medical Centers.
Tenure commencement date:	25.12.2017

Name:	**Rin Krichel Metsuyanim**
ID number:	037721057
Date of birth:	19/11/1983
Position in the Company, in a subsidiary or in an interested party:	VP Legal Consulting and Regulation
Relative of another officer or interested party of the Company:	No
Education:	Bachelor of Laws (LLB) from the College of Management in Rishon Lezion.
Business experience in the last five years:	Management member and in charge of enforcement and compliance in Psagot Provident and Pension Funds Ltd. Legal consultant and director of the litigation department of Menorah Mivtachim Pension and Provident Ltd
Tenure commencement date:	17.10.2021

Name:	**Ronit Tishler Piti**
ID number:	040402760
Date of birth:	20/07/1980
Position in the Company, in a subsidiary or in an interested party:	VP Operations and Partner relations
Relative of another officer or interested party of the Company:	No
Education:	MBA (Social sciences and management) from the Open University
Business experience in the last five years:	Projects Department Manager at Shva; Project manager and systems analyst at Shva; Project manager and system analyst at Max It Finance Ltd.;
Tenure commencement date:	02/2022

Name:	**Michal Mizrahi**
ID number:	032056657
Date of birth:	10/03/1975
Position in the Company, in a subsidiary or in an interested party:	Comptroller
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:	Was also the controller of Masav
Tenure commencement date:	23.6.2019

Name:	**Odelia Green Katz**
ID number:	040018558
Date of birth:	040018558
Position in the Company, in a subsidiary or in an interested party:	HR manager
Relative of another officer or interested party of the Company:	No
Education:	LLB, Tel Aviv University, Master's degree in labor studies, Tel Aviv University
Business experience in the last five years:	Human Resources Manager at Israel Electric Company Ltd., Human Resources Manager at Max It Finance Ltd.
Tenure commencement date:	15.06.2022

Name:	**Eli Hilel**
ID number:	27904655
Date of birth:	20/11/1970
Position in the Company, in a subsidiary or in an interested party:	Internal Auditor
Relative of another officer or interested party of the Company:	No
Education:	Bachelor's degree in business administration (Accounting) the College of Management, CPA, Certified Internal Auditor, Certified Information Systems Auditor (CISA), and Certified Data Privacy Solutions Engineer (CDPSE)
Business experience in the last five years:	Internal auditor of Menora Mivtachim Pension and Provident Ltd.
Tenure commencement date:	5/12/2021

Name:	**Tali Holenberg**
ID number:	033291733
Date of birth:	11.03.1977
Position in the Company, in a subsidiary or in an interested party:	VP of Marketing, Sales and Business Development.
Relative of another officer or interested party of the Company:	No
Education:	Bachelor's degree in behavioral sciences and philosophy from Bar Ilan University.
Business experience in the last five years:	Manager of the Processing activity at Max It Finance Ltd.
Tenure commencement date:	01.06.2022

Executives (other than directors) who ceased serving during the reported year and through the date of issuing the report:

Mr. Gadi Margalit served until January 2, 2023 as VP of Infrastructure in 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
Kesselman & Kesselman (PwC Israel) of 146 Menachem Begin Rd. Tel Aviv

Regulation 28 change in Company memorandum or articles

None

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

C.1. On February 13, 2022, the general meeting of the Company's shareholders approved an amendment to the Company's Remuneration policy and the grant of equity compensation to Mr. Eitan Lev Tov, the Company's CEO. For more details, see the meeting summons report published by the Company on January 6, 2022 (reference number: 2022-01 -004030), which is included by way of reference.

C.2. On August 9, 2022, the general meeting of the Company's shareholders approved the appointment of two external directors of the Company, Ms. Jacqueline Natalie Strominger and Ms. Merav Leshem, as well as the appointment of Mr. Sharon Haran as an additional director of the Company according to the proposal of the Company's shareholders. For more details, see the meeting summons report published by the Company on July 4, 2022 (reference number: 2022-01-083374), which is included 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, 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 remuneration 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 occurrence 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 2022, the Company engaged in an annual insurance policy (through July 14, 2023), with a liability limit of up to USD 15 million, per occurrence and for the 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 109 thousand.

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Grant of equity remuneration to the CEO and officers

On December 30, 2021, the Company's Board of Directors approved the grant of options to the CEO and the Company's officers and employees. On February 13, 2022, the general meeting of the Company's shareholders approved the grant of options to the CEO and the amendment of the remuneration policy. For further details, see the meeting convening report published by the Company on January 6, 2022 and the report of the results of the meeting published by the Company on February 13, 2022 (reference numbers: 2022-01-004030 and 2022-01-017836, respectively), whose contents are included herein by way of reference.

PART E

Report on the effectiveness of internal control over financial reporting and disclosure

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 Banking Services Ltd. ("the Company"), is responsible for determining and maintaining adequate internal control over financial reporting and disclosure in the Company.

For that purpose, members of management are:

1. Eitan Lev Tov, 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 the 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 anyone actually performing said position, 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 (Scoping) for 2022, 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, 2022 is effective.

Attached below are declarations by managers under Regulation 9b(d)(1) and (2) to the Reports Regulations.

Declaration by the General Manager pursuant to Regulation 9B(d)(1)

I, Eitan Lev Tov, declare that:

(1) I have reviewed the periodic report by Automated Banking Services Ltd. (hereinafter: "the Company") for the 2022 (hereinafter "the reports");

(2) Based on my knowledge, the reports are free of any misrepresentation of material fact and are 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 reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports 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 or 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 put in place 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 28, 2023

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Eitan Lev Tov
CEO

Declaration by the senior financial officer pursuant to Regulation 9B(d)(1)

I, Ofer Eden, declare that:

(1) I have reviewed the periodic report by Automated Banking Services Ltd. (hereinafter: "the Company") for the 2022 (hereinafter "the reports");

(2) Based on my knowledge, the reports are free of any misrepresentation of material fact and are 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 reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports 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 or 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 put in place 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 28, 2023

Ofer Eden
VP Finance CFO