THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017

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Contents

Deloitte.

AUDITORS' REPORT TO THE SHAREHOLDERS OF
THE TEL-AVIV STOCK EXCHANGE LTD.
ON COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING
PURSUANT TO SECTION 9 B (c) OF
SECURITIES REGULATIONS (PERIODIC AND IMMEDIATE REPORTS), 1970

We have audited the components of internal control over financial reporting of The Tel-Aviv Stock Exchange Ltd and its subsidiaries (together "Company") as of December 31, 2017. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting included in the report of events and changes, which occurred in the Company's business and affected the Company as of said date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Company based on our audits.

The components of internal control over financial reporting that we have audited are pursuant to Auditing Standard 104, "Audit of Components of Internal Control over Financial Reporting", of the Institute of Certified Public Accountants in Israel ("Auditing Standard 104"). These components consist of: (1) entity level controls, including controls over the process of preparation and closing of financial reporting, and general information technology controls, (2) controls over the process of intangible assets, (3) controls over the process of employee payments and liabilities and (4) controls over the process of revenue from trading and clearing commissions and Clearing House services (jointly referred to below as "Audited Components of Control").

We conducted our audits in accordance with Auditing Standard 104. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control and obtaining reasonable assurance about whether these components of control were maintained effectively in all material respects. Our audits included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and the operating effectiveness of those components of control based on the assessed risk. Our audits, in respect to those components of control, also included other procedures, as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, rather than internal controls over all material processes related to financial reporting, and accordingly, our opinion refers only to the Audited Components of Control. In addition, our audits did not refer to the reciprocal impact between the Audited Components of Control and those that are not audited, and accordingly, our opinion does not take into consideration any such possible impact. We believe that our audits provide a reasonable basis for our opinion in the context noted above.

Due to inherent limitations, internal control over financial reporting in general, and its components in particular, might not prevent or detect misstatement. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2017.

We have also audited, in accordance with generally accepted auditing procedures in Israel, the consolidated financial statements of the Company as of December 31, 2017 and 2016, and its operating results for each of the three years in the period ended on December 31, 2017, and our report dated March 29, 2018 expressed an unqualified opinion thereon .

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel, March 29, 2018

Tel Aviv - Main Office
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593
Tel Aviv, 6116402 I Tel: +972 (3) 608 5555 I Fax: +972 (3) 609 4022 I info@deloitte.co.il

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 9777603
Delivery Box 45396
Jerusalem 9145101
Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502
Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Beer Sheva
12 Alumot
Omer Industrial Park
P.O.B 1369
Omer, 8496500
Tel: +972 (8) 690 9500
Fax: +972 (8) 690 9600
info-beersheva@deloitte.co.il

Eilat
The City Center
P.O.B 583
Eilat, 8810402
Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Trigger Foresight
A Deloitte Israel Company
3 Azrieli Center
Tel Aviv, 6701101
Tel: +972 (3) 607 0500
Fax: +972 (3) 607 0501
info@deloitte.co.il

Deloitte Analytics
7 Hasivim
P.O.B. 7796
Petah Tikva, 4959368
Tel: +972 (77) 8322221
Fax: +972 (3) 9190372
info@deloitte.co.il

Seker - Deloitte
7 Giborey Israel St.
P.O.B 8458
Netanya 4250407
Tel: +972 (9) 892 2444
Fax: +972 (9) 892 2440
info-seker@deloitte.co.il

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
THE TEL-AVIV STOCK EXCHANGE LTD.

We have audited the accompanying consolidated statements of financial position of The Tel-Aviv Stock Exchange Ltd. ("Company") as of December 31, 2017 and 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years in the period ended on December 31, 2017. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2017 and 2016, and their operating results, changes in equity and cash flows for each of the three years in the period ended on December 31, 2017, in accordance with International Financial Reporting Standards (IFRS) and the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 "Audit of Internal Control Components over Financial Reporting", of the Institute of Certified Public Accountants in Israel, as amended, the components of internal control over the Company's financial reporting as of December 31, 2017, and our report dated March 29, 2018, included an unqualified opinion on the effectiveness of said internal control components.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel, March 29, 2018

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		NIS, in thousands	
Assets:			
Current assets			
Cash and cash equivalents	6 A	28,095	22,133
Available-for-sale financial assets	8	155,672	-
Financial assets at fair value through profit or loss – held for trading	8	31,825	17,227
Trade receivables		14,222	13,649
Assets derived from clearing operations in respect to open derivative positions	7	1,739,570	1,230,907
Other receivables		3,495	3,208
Current tax assets	15	6,506	10,062
Total current assets		1,979,385	1,297,186
Non-current assets			
Cash restricted as to use	6 B	538	538
Available-for-sale financial assets	8	-	156,398
Property and equipment, net	10, 11	249,761	256,345
Intangible assets, net	12	88,635	88,451
Deferred tax assets	15	15,472	18,030
Total non-current assets		354,406	519,762
Total assets		2,333,791	1,816,948

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		NIS, in thousands	
Liabilities and Equity:			
Current liabilities			
Trade payables		19,728	14,380
Liabilities derived from clearing operations in respect to open derivative positions	7	1,739,570	1,230,907
Current liabilities for employee benefits	13	21,684	35,509
Other payables		3,365	3,015
Current tax liabilities	15	-	1,177
Total current liabilities		1,784,347	1,284,988
Non-current liabilities:			
Non-current liabilities for employee benefits	13	24,691	20,978
Other liabilities	6 B	538	538
Total non-current liabilities		25,229	21,516
Equity			
Remeasurement reserve of net liabilities in respect to defined benefits		(9,094)	(7,642)
Capital reserve in respect to share-based payment transactions	14	27,380	-
Other capital reserves		5,299	3,186
Retained earnings		500,630	514,900
Total equity		524,215	510,444
Total liabilities and equity		2,333,791	1,816,948

March 29, 2018			
Date of Financial Statements Approval	**Amnon Neubach Chairman of the Board of Directors**	**Ittai Ben-Zeev Chief Executive Officer and Director**	**Yehuda van der Walde Executive vice president for Finance and Administration**

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

THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year Ended December 31,		
		2017	2016	2015
		NIS, in thousands		
Revenue from services:	18			
Trading and clearing commissions		115,568	115,607	140,998
Securities registration for trading fees, and annual levies		39,737	40,604	41,115
Clearing House services		44,542	43,168	36,824
Distribution of trading and other data		36,640	38,684	41,808
Other		5,937	4,137	1,864
Total revenue from services		242,424	242,200	262,609
Cost of revenue:				
Expenses in respect to employee benefits	19 A	128,698	124,664	129,243
Expenses in respect to share-based payments	14	27,380	-	-
Computer and communications expenses		25,598	29,340	28,132
Property taxes and building maintenance expenses		12,559	13,147	13,118
General and administrative expenses		7,817	14,068	17,239
Marketing expenses		5,547	2,917	3,062
Fee to the Israel Securities Authority		10,476	10,508	8,484
Operating expenses for nominee company		5,655	5,655	6,570
Depreciation and amortization expenses	19 B	29,597	32,188	30,730
Other expenses		290	3,212	2,092
Total cost of revenue		253,617	235,699	238,670
Profit (loss) before financing income, net		(11,193)	6,501	23,939
Financing income		1,900	765	4,044
Financing expenses		331	262	142
Total financing income, net	20	1,569	503	3,902
Profit (loss) after financing income, net		(9,624)	7,004	27,841
Company's share of an associate's losses		-	-	(96)
Profit (loss) before taxes on income		(9,624)	7,004	27,745
Taxes on income	15	4,646	4,903	7,499
Profit (loss) for the year		(14,270)	2,101	20,246
Other comprehensive income (loss):				
Amounts that will not be reclassified in the future to profit or loss, net of tax:				
Remeasurement of net liabilities in respect to defined benefits, net of tax		(1,452)	(296)	(1,104)
Amounts that will be reclassified in the future to profit or loss, net of tax:				
Net fair value gain (loss) on available-for-sale financial assets, net of tax		2,113	259	(273)
Comprehensive income (loss) for the year		(13,609)	2,064	18,869

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Reserve in Respect to Share-Based Payment Transactions	Remeasurement Reserve of Net Liabilities in Respect to Defined Benefits	Revaluation Reserve for-Available-for-Sale Financial Assets	Other Capital Reserves	Retained Earnings	Total
	NIS, in thousands					
Balance as of January 1, 2015	-	(6,242)	-	3,200	492,553	489,511
Profit for the year	-	-	-	-	20,246	20,246
Other comprehensive loss for the year	-	(1,104)	(273)	-	-	(1,377)
Total comprehensive income (loss) for the year	-	(1,104)	(273)	-	20,246	18,869
Balance as of December 31, 2015	-	(7,346)	(273)	3,200	512,799	508,380
Balance as of January 1, 2016	-	(7,346)	(273)	3,200	512,799	508,380
Profit for the year	-	-	-	-	2,101	2,101
Other comprehensive income (loss) for the year	-	(296)	259	-	-	(37)
Total comprehensive income (loss) for the year	-	(296)	259	-	2,101	2,064
Balance as of December 31, 2016	-	(7,642)	(14)	3,200	514,900	510,444
Balance as of January 1, 2017	-	(7,642)	(14)	3,200	514,900	510,444
Issuance of shares (*)	-	-	-	-	-	-
Loss for the year	-	-	-	-	(14,270)	(14,270)
Other comprehensive income for the year	-	(1,452)	2,113	-	-	661
Total comprehensive income (loss) for the year	-	(1,452)	2,113	-	(14,270)	(13,609)
Share-based payment	27,380	-	-	-	-	27,380
Balance as of December 31, 2017	27,380	(9,094)	2,099	3,200	500,630	524,215

(*) For additional details regarding the issuance of shares having no par value, see note 17.

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (loss) for the year	(14,270)	2,101	20,246
Expenses in respect to share-based payments	27,380	-	-
Tax expenses recognized in profit or loss	4,646	4,903	7,499
Net financing income recognized in profit or loss	(1,569)	(503)	(3,902)
Depreciation and amortization	29,597	32,188	30,730
Capital loss from disposal of property and equipment and intangible assets	270	2,907	920
Company's share of undistributed losses of an associate	-	-	96
	46,054	41,596	55,589
Changes in asset and liability items:			
Decrease (increase) in trade receivables and other receivables	(859)	1,221	(2,337)
Decrease (increase) in receivables in respect to open derivative positions	(508,663)	144,466	519,584
Increase (decrease) in trade payables and other payables	2,397	(468)	(2,835)
Increase (decrease) in payables in respect to open derivative positions	508,663	(144,466)	(519,584)
Increase (decrease) in liabilities for employee benefits	(11,999)	2,399	6,475
	35,593	44,748	56,892
Interest received	6,206	5,755	3,377
Interest paid	(345)	(258)	(136)
Tax receipts (payments) – operating activities	20	3,116	(7,624)
	5,881	8,613	(4,383)
Net cash provided by operating activities	41,474	53,361	52,509
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of available-for-sale financial assets	(33,140)	(66,962)	(148,256)
Proceeds from realization of available-for-sale financial assets	32,494	41,642	12,021
Acquisitions of property and equipment	(4,288)	(7,961)	(15,653)
Proceeds from realization of property and equipment	2	20	1
Acquisitions of intangible assets	(4,336)	(6,813)	(8,997)
Proceeds from realization of assets of associate, in voluntary liquidation	-	-	5,946
Costs capitalized to property and equipment and intangible assets	(11,544)	(12,101)	(15,854)
Proceeds from realization (acquisition)of held-for-trading financial assets, net	(14,561)	(5,513)	138,140
Tax payments – financial assets held for trading	-	(97)	(2,469)
Net cash used for investing activities	(35,373)	(57,785)	(35,121)
Increase (decrease) in cash and cash equivalents	6,101	(4,424)	17,388
Cash and cash equivalents, beginning of the year	22,133	26,568	9,207
Effect of changes in exchange rates on cash balances held in foreign currency	(139)	(11)	(27)
Cash and cash equivalents, end of the year	28,095	22,133	26,568
APPENDIX A – NON-CASH ACTIVITIES:			
Acquisition of property and equipment and intangible assets, under short-term credit	6,560	3,259	5,999

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

NOTE 1 - GENERAL:

A. The Tel-Aviv Stock Exchange ("TASE"), a company limited by shares, was incorporated in Israel, in 1953, and its registered office is located at 2 Ahuzat Bayit Street, Tel Aviv. TASE is engaged in managing a securities stock exchange and in related activities.

The TASE Clearing House Ltd. ("TASE-CH") is wholly owned by TASE (see note 9 below). TASE-CH was acquired by TASE in September 2006 from TASE-CH members and is engaged primarily in clearing and settlement of securities, other than derivatives, and providing services as a Central Securities Depository.

The MAOF Clearing House Ltd. ("MAOF-CH") is wholly owned by TASE (see note 9 below) and is engaged primarily in issuing options and futures ("derivatives") and providing clearing services for these derivatives.

The Tel-Aviv Stock Exchange Nominee Company Ltd. (“Nominee Company”) is wholly owned by TASE (see note 9 below) and was incorporated in Israel on October 25, 2017. The Nominee Company is engaged in holding securities for others and in performing the actions required for this in accordance with the provisions of the law.

All that reported in these financial statements regarding the activity of both TASE-CH and MAOF-CH is subject to the By-Laws of each clearing house.

In respect to clearing houses' operations, the terms used in these financial statements shall have the meaning they have in the Securities Law, 1968, TASE’s Rules, the Regulations pursuant thereto, and the Clearing Houses’ By-Laws.

In respect to a model regarding the allocation of income and expenses of TASE, MAOF-CH, TASE-Ch and the Nominee Company (“the Group”) between the Group companies, see note 21 C (2) (a).

B. On July 30, 2015, the general meeting resolved to approve an outline in principle for an arrangement program between the current TASE members, and also between them and TASE, for the purpose of implementing a restructuring of TASE and turning it into a company that is entitled to distribute dividends, having a share capital comprising only one class of shares. This is to be done by allocating shares to the TASE members in accordance with an allocation table to be decided upon (“the Allocation Table”). In accordance with the outline in principle that was approved as stated, the parameters included in the model, for the purpose of establishing entitlement to the share allocation, relates to anyone that was a TASE member on June 30, 2015.

On April 6, 2017, the Securities Law (Amendment No. 63), 2017, which deals with changes in the ownership structure of TASE, was passed (“TASE Restructuring Law”, “Law”). The aim of the Law is to change the ownership structure of TASE, while transforming it into a “for profit” company, and to expand the TASE membership base and to make TASE accessible to a larger number of parties. Another aim of the Law is to lay the infrastructure for future strategic collaborations with foreign stock exchanges and strategic investors.

The main points of the Law are as follows:

- With the TASE restructuring and upon the corporate governance arrangements in the aforementioned Securities Law amendment taking effect, the provisions prescribed in the Securities Law prohibiting the distribution of TASE profits will be revoked, so as to permit TASE to become a “for profit” company entitled to distribute profits to its owners.
- Prescribing terms for obtaining a stock exchange license in Israel. In accordance with the transitional provisions set forth in the Law, the license granted to the Tel-Aviv Stock Exchange prior to the Law taking effect will be deemed a license granted to it pursuant to the provisions of the Law.

NOTE 1 - GENERAL (CONT.):

B. (Cont.):

- Prescribing terms for obtaining a clearing house license in Israel. In accordance with the transitional provisions set forth in the Law, TASE-CH and MAOF-CH will be deemed as having been granted a license pursuant to the provisions of the Law.
- Setting a proscription against TASE engaging in the provision of services giving rise to a substantive concern regarding a conflict of interests with its business of managing a securities trading system.
- Setting a proscription against a holding of five percent or more in TASE without receipt of a permit from the Israel Securities Authority, setting a proscription against control of TASE without a permit and setting a proscription against control of a clearing house without a permit. In accordance with the transitional provisions set forth in the Law, TASE will be deemed as having been granted a permit to control the clearing houses under its control prior to the Law taking effect pursuant to the provisions of the Law.
- Prescribing corporate governance arrangements.
- Imposing an obligation on clearing houses to provide services to every stock exchange or clearing member and not to unreasonably refuse to provide such services.
- Prescribing a provision stating that if an entity has sold means of control in TASE, which it held prior to the date that the change in the TASE ownership structure was approved, and if the sale proceeds exceeded the value of the means of control sold, the seller will transfer to TASE an amount equivalent to the difference between the sale proceeds and the value of the means of control sold. For this purpose, "value of the means of control sold" – the means of control sold as a percentage of the total means of control in TASE on the arrangement's approval date multiplied by the TASE equity according to its 2015 financial statements. TASE may make use of sums transferred to it pursuant to this clause in order to reduce the fees TASE charges and to invest in technological infrastructure, and for these purposes alone.

On September 7, 2017, the Tel Aviv District Court approved the demutualization arrangement of TASE in accordance with Section 350 of the Companies Law, the main principles of which are detailed below: replacing TASE's present Articles of Association with a new version of the Articles of Association that conforms with the provisions of the TASE Restructuring Law.

In addition, it was prescribed that the authorized share capital of TASE will be 150,000,000 ordinary shares having no par value. Within the framework of the arrangement, TASE allocated 94,000,000 ordinary shares to the TASE members in accordance with the Allocation Table, for no consideration – for further details, see note 17. Likewise, TASE allocated 6,000,000 shares to a trustee for TASE employees and service providers, for no consideration. The allocation of shares to TASE employees was done within the framework of the Compensation plan, which had been approved by the organs of TASE, in accordance with the principles set forth in note 14.

C. The text in these financial statements is an English translation of the original Hebrew financial statements.

In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail.

D. Definitions:

Company or TASE - The Tel-Aviv Stock Exchange Ltd.

The Group - The Company and its subsidiaries (as defined below).

NOTE 1 - GENERAL (CONT.):

D. Definitions (Cont.):

Subsidiaries	-	Companies controlled (as defined by IFRS 10) by the Company, whose financial statements are fully consolidated with those of the Company.
Investees	-	Subsidiaries. See note 9 below – list of investees.
Related parties	-	As defined by IAS 24 – "Related Parties".
Interested parties	-	As defined in the Securities Law, 1968 and regulations thereunder.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A. Declaration on the Implementation of International Financial Reporting Standards (IFRS):

The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards (IFRS) and respective interpretations, as published by the International Accounting Standards Board (IASB). The significant accounting policies set out below have been applied consistently for all periods reported in these consolidated financial statements.

B. The financial statements were prepared in accordance with Securities Regulations (Annual Financial Statements), 2010 ("Financial Statement Regulations").

C. Operating Cycle:

The Group's operating cycle is 12 months.

D. Format for Reporting Expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income:

Group expenses in the Statement of Profit or Loss and Other Comprehensive Income are reported based on the nature of the expenses. The Group estimates, because of its organizational structure, that the classification of expenses in this manner is more reliable and relevant than any classification by expense function.

E. Foreign Currency:

(1) Functional Currency and Presentation Currency:

The consolidated financial statements have been prepared in New Israeli Shekels ("NIS"), which is the functional currency of the Group, and are rounded to the nearest thousand. The NIS is the currency of the primary economic environment in which the Group operates.

(2) Translation of Transactions not in the Functional Currency:

In the preparation of the financial statements of each Group company, transactions in currencies other than the functional currency of the company ("foreign currency") are accounted for at exchange rates prevailing on the transaction date. At the end of each reporting period, monetary items denominated in foreign currency are translated using the exchange rate prevailing on said date. Non-monetary items measured at historical cost are translated using the exchange rate prevailing on the date of the transaction related to the non-monetary item.

(3) Manner of Recording Exchange Rate Differences:

Exchange rate differences are recognized in profit or loss in the period incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

F. Cash and Cash Equivalents:

Cash and cash equivalents include cash available for immediate use, deposits that can be withdrawn on call and short-term unrestricted deposits, with maturity dates not exceeding three months from the date of deposit.

G. Consolidated Financial Statements:

The consolidated financial statements of the Group include the financial statements of the Company and the entities that the Company directly controls. An investor company controls the investee company, when it is exposed, or has rights, to variable returns from its interest in the investee and when it can affect those returns through the exercise of its power over the investee.

For consolidation purposes, intercompany transactions, balances, income, and expenses have been fully eliminated.

H. Property and Equipment:

(1) General:

Property and equipment are tangible items that are held for the supply of services, which are expected to be used over more than one period. The property and equipment include one floor of a building let to external tenants, which cannot be sold separately.

Property and equipment assets are reported at cost in the Statements of Financial Position, less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Regarding the impairment assessment of the building under construction, see note 3 B.

(2) Depreciation of Property and Equipment:

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is systematically allocated using the straight-line method over the expected useful lives of components of an item beginning when the asset is ready for its intended use.

The useful lives and the depreciation rates used for the calculation of depreciation are as follows:

	Useful Life	Depreciation Rates
Leased land (*)	98-999 years	0.1%-1% (mainly 0.75%)
Building (**)	15-50 years	2%-6.7% (mainly 2%)
Costs in respect to opearating lease	5 years	20%
Computer systems and related equipment	3-15 years	6.7%-33.3% (mainly 20%)
Equipment and systems	7-33 years	3%-14% (mainly 6.67%)
Furniture	8-30 years	3.3%-12.5% (mainly 3.3%)

(*) For information on leased land, see paragraph J below. In addition, the Company has land that it owns freehold, which is not depreciated.

(**) The building and related fixtures have been depreciated since their occupancy date in July 2014.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

H. Property and Equipment (Cont.):

(2) Depreciation of Property and Equipment (Cont.):

The depreciation method and the useful lives of the assets are reviewed by management at year-end. Changes are accounted for as a change in an accounting estimate and are recognized prospectively.

Any gain or loss arising from disposing of or retiring an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying value of the item, and is recognized in profit or loss, under other expenses.

I. Intangible Assets:

(1) General:

Intangible assets are identifiable non-monetary assets with no physical substance.

The useful lives used to amortize intangible assets with a finite useful life are as follows:

Software and licenses 4-10 years (mainly 10 years).

(2) Intangible Assets are Recognized and Measured According to the Manner of their Creation According to the Following Groups:

(a) Intangible Assets that are Acquired Separately:

Intangible assets (software and licenses) acquired separately are reported at cost, less amortization and any cumulative impairment losses.

Amortization is calculated using the straight-line method over the estimated period of useful life. The estimated useful life and amortization method are evaluated at the end of each reporting year with the effect of changes in estimation accounted for prospectively.

(b) Internally Generated Intangible Assets – Development Costs of Computer Software for Internal Use:

Costs incurred during the preliminary phase of software development for internal use are recognized in profit or loss as incurred.

An intangible asset generated internally during the development phase of software and computer systems is recognized if, and only if, all of the following terms are complied with:

- the ability to measure reliably the expenditure attributable to the asset during its development;
- the technical feasibility of completing the asset so that it will be available for use;
- the Group's intention to complete the asset and use it;
- the Group's ability to complete the asset and use it;
- how the asset will generate future economic benefits can be determined; and,
- the availability to the Group of adequate technical, financial and other resources to complete the development and to use the asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

I. Intangible Assets (Cont.):

(2) Intangible Assets are Recognized and Measured According to the Manner of their Creation According to the Following Groups (Cont.):

(b) Internally Generated Intangible Assets – Development Costs of Computer Software for Internal Use (Cont.):

When an internally generated intangible asset cannot be recognized, software development costs are recognized in profit or loss as incurred. Internally generated intangible assets with finite useful lives are amortized using the straight-line method over their useful lives and are reported at cost less accumulated amortization and any impairment losses. The estimated life and method of amortization are evaluated at the end of each reporting year with the effect of changes in estimations accounted for prospectively.

J. Leases:

Lease arrangements are classified as a finance lease when the terms of the contract substantially transfer all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Finance Lease:

Land leases are classified as finance leases and reported in the Statements of Financial Position under property and equipment, net. Lease payments are amortized on a straight-line basis over the lease period. Land is leased for periods of 98 years to 999 years (mainly 140 years).

Operating Lease:

Rental income and expenses from an operating lease are recognized over the lease period on a straight-line basis.

Regarding the publication of a new accounting standard dealing with leases, IFRS 16 “Leases” – see paragraph S below.

K. Impairment of Assets (Except for Financial Assets):

At the end of each reporting period, the Group reviews the book value of its tangible and intangible assets to determine whether there is any indication of impairment loss. If such indications exist, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If it is not possible to measure the recoverable amount of a specific asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value, less realization costs, and value in use. To assess value in use, estimated future cash flows are discounted to present value using the pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in respect to which the estimated future cash flows have not been adjusted.

Where the recoverable amount of an asset (or of the cash-generating unit) is estimated to be less than its book value, the book value of the asset (or of the cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense in profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

K. Impairment of Assets (Except for Financial Assets) (Cont.):

Where an impairment loss recognized in prior periods is reversed, the book value of the asset is increased to the revised estimate of its recoverable amount, but not more than the book value that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized in profit or loss.

Regarding the impairment assessment of the building under construction and intangible assets, see note 3 B.

L. Financial Assets and Financial Liabilities:

(1) Financial Assets and Financial Liabilities (Except for Clearing Operations):

(a) Financial Assets – General:

Financial assets of the Group are classified into the following categories. These categories are dependent on the nature and the purpose for holding the financial asset and are determined at the time of initial recognition of the financial asset:

- Financial assets at fair value through profit or loss.
- Loans and receivables.
- Available-for-sale financial assets.

Loans and receivables are recognized in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets at fair value through profit or loss and investments in available-for-sale financial assets are recognized in the Statement of Financial Position on settlement date, similar to financial assets from clearing operations. (see paragraph L (2) (a) below). Investments in financial assets are initially recognized at their fair value.

Regarding the publication of the final version of IFRS 9 "Financial Instruments", see paragraph S below.

(b) Financial Assets at Fair Value through Profit or Loss:

Financial assets are classified as “financial assets at fair value through profit or loss” when said assets are held for trading purposes. This category includes securities acquired for trading purposes.

A financial asset in this category is stated at fair value. Any gain or loss arising on any changes in fair value, including that resulting from changes in exchange rates, is recognized in profit or loss during the period when the change occurs. The net gain or loss reported in profit or loss includes any dividend or interest earned on the financial asset. The fair value of the financial instruments is based on market prices (determining price) on TASE at the end of the reporting period.

(c) Loans and Receivables:

Trade receivables, deposits and other receivables, which have fixed or determinable payment terms, not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are not measured using the effective interest method as the interest to be recognized thereon is not material.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

L. Financial Assets and Financial Liabilities (Cont.):

(1) Financial Assets and Financial Liabilities (Except for Clearing Operations) (Cont.):

(d) Available-For-Sale Financial Assets:

Investments in listed debt instruments, which are not classified as financial assets at fair value through profit or loss, as held-to-maturity investments or as loans and receivables, are classified as available-for-sale financial assets.

Investments in debt instruments that are traded on an active market are presented at their fair value. Gains or losses arising from changes in the fair value are carried to the "Net fair value gain (loss) on available-for-sale financial assets, net of tax" item in other comprehensive income.

When the investments in such financial assets are realized, the gains or losses accumulated through the realization date, which were carried to other comprehensive income, are reclassified to profit or loss in the period in which the realization took place.

Interest income on available-for-sale debt instruments is recognized in profit or loss using the effective interest method.

(e) Other Financial Liabilities:

Trade payables and other payables are classified as other financial liabilities. Other financial liabilities are initially recognized at fair value. After initial recognition, other financial liabilities are not remeasured using the effective interest method, as any interest to be recognized is not material.

(2) Financial Assets and Financial Liabilities from Clearing Operations:

(a) General:

The Tel Aviv Stock Exchange Clearing House Ltd. is a wholly owned subsidiary of TASE. As a Central Counterparty (CCP), TASE-CH ensures the execution of transactions in securities that are cleared on TASE-CH, which were executed on TASE (other than derivatives), including transfers to custody (on TASE) and transactions in securities that were executed on MTS – Multilateral Trading System ("on-exchange transactions in securities"), provided that the terms relating thereto are fulfilled in accordance with the TASE-CH By-Laws. Should a Clearing member be unable to fulfill its obligations ("default event"), TASE-CH will be obligated to fulfill the defaulting member's obligations to the other Clearing members, in respect to the on-exchange transactions in securities executed by it, by virtue of its undertaking as a CCP and in accordance with the TASE-CH By-Laws.

The MAOF Clearing House Ltd. is a wholly owned subsidiary of TASE. As a Central Counterparty (CCP), MAOF-CH ensures the execution of transactions in derivatives (options and futures) ("on-exchange transactions in derivatives"), provided that the terms relating thereto are fulfilled in accordance with the MAOF-CH By-Laws. Should a Clearing member be unable to fulfill its obligations ("default event"), MAOF-CH will be obligated to attend to the open derivative positions of the defaulting member and to fulfill said member's obligations to the other Clearing members, in respect to the on-exchange transactions in derivatives executed by it, by virtue of its undertaking as a CCP and in accordance with the MAOF-CH By-Laws.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

L. Financial Assets and Financial Liabilities (Cont.):

(2) Financial Assets and Financial Liabilities from Clearing Operations (Cont.):

(a) General (Cont.):

Assets and liabilities in respect to financial instruments arising from the aforementioned clearing operations on the Clearing House are recorded in the financial statements of each Clearing House on the settlement date, as these are transactions executed in the regular way, apart from assets and liabilities in respect to positions in derivative financial instruments on MAOF-CH that are recorded on the trade date in accordance with International Accounting Standard (IAS) 39.

Positions in derivative financial instruments on MAOF-CH arising from transactions in options and futures are recorded as receivables and payables relating to open derivative positions. (see note 7). These positions are measured in each reporting period at fair value. Since the asset and liability positions are identical, the same amount is recognized for both assets and liabilities, and no gains or losses from fair value adjustments are recognized in profit or loss.

Cash provided by the member as collateral to secure all its obligations to each of the Clearing Houses, as well as the income therefrom, are deposited in a separate account that is managed in the name of each of the Clearing Houses and is charged in favor of the Clearing Houses. The Clearing Houses' rights in the collateral are charge rights alone and not ownership rights. Only the Clearing Houses may operate the account and the member may not withdraw cash from the account without the approval of the Clearing Houses. Accordingly, these amounts are not presented as an asset and a liability in the financial statements.

(b) Fair Value of Financial Instruments:

The fair value of financial instruments is based on market prices (determining price) on TASE at the end of the reporting period. If a certain instrument is not traded on the last trading day of the year or if the last trading day of the year is not an expiration date for a certain derivative, the Group uses valuation techniques based on accepted economic models for pricing derivatives, using assumptions that are based on the economic conditions existing at the end of the reporting period (see also note 8 C).

(c) Offset of Financial Instruments:

Financial assets and financial liabilities are reported in the Statements of Financial Position at net, only if there is a legally enforceable right to offset and the entity intends to settle on a net basis, or to realize an asset and settle the liability simultaneously.

In order to meet the conditions for offsetting financial assets and financial liabilities, the offset right cannot be dependent on any future event and must be enforceable in the ordinary course of business, in the event of bankruptcy, insolvency or credit default.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

M. Taxes on Income:

(1) General:

The expenses (income) for taxes on income include current tax and any changes in deferred tax balances, except the deferred tax relating to items that are recognized directly in other comprehensive income.

(2) Current Tax:

Current tax expenses are calculated based on the taxable income of the Company and its consolidated subsidiaries for the reporting period. Taxable income differs from pretax income, due to the inclusion or exclusion of income and expense items that are taxable or deductible in other reporting periods or are not taxable or deductible. Current tax assets and liabilities are calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date.

(3) Deferred Tax:

The Group companies recognize deferred tax, as detailed below, in respect to temporary differences between the tax basis of assets and liabilities and their carrying amount in the financial statements. Deferred tax balances (asset or liability) are calculated using tax rates that are expected to apply in the period when the asset is derecognized, based on tax rates and tax laws that have been enacted or substantively enacted by reporting date. Deferred tax liabilities are recognized generally for all temporary differences between the tax bases of assets and liabilities and their carrying amount in the financial statements. Deferred tax assets are recognized for all temporary differences that are deductible, up to the amount of expected taxable income that will be available, against which the deductible temporary difference can be utilized.

In computing deferred tax, any tax that would apply when realizing the investment in consolidated subsidiaries is not taken into account, since it is the intention of the Group to hold and develop these investments. In addition, no deferred tax is recognized for income distributions from these companies, since the dividends are not taxable.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority, and the entity intends to settle current tax assets and liabilities on a net basis.

N. Revenue Recognition:

Income is measured at the fair value of the consideration received and/or consideration that the Group is entitled to receive in respect to revenue from services in the ordinary course of business.

(1) Revenue from Services:

The Group records revenue from services when providing the service.

(2) Interest Income:

Interest income is recorded periodically, based on any outstanding principal for repayment and using the effective interest method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

N. Revenue Recognition (Cont.):

(3) Dividend Income:

Dividend income from investments in marketable securities held for trading is recognized at the time of entitlement to receive the dividend.

(4) Rental Income:

Rental income from an operating lease is recognized over the term of the lease.

(5) Revenue Recognition on a Gross or Net Basis:

In transactions where the Group acts as an agent or as a broker without carrying the risks and rewards arising from the transaction, the Group's revenue is presented on a net basis. Revenue in respect to transactions where the Group is the principal debtor, and carries the risks and rewards arising from the transaction, the revenue is presented on a gross basis.

O. Provisions:

Provisions are recognized when the Group has a present legal or constructive obligation because of a past event and it is probable that a transfer of economic resources will be required to settle the obligation, and a reliable estimate can be made of the obligation.

The amount recognized as a provision is the management's best estimate of the consideration required to settle the present obligation on reporting date, taking into account the risks and uncertainties surrounding the obligation, with the provision being measured using the cash flows projected to be needed to settle the present obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the Group recognizes an asset for the recovered amount if it is virtually certain that the reimbursement will be received and that it can be measured reliably.

P. Share-Based Payments:

Share-based payments to employees and others, which are settled in the equity instruments of the Group, are measured at their fair value at the grant date and are recorded as an expense against an increase in equity under the heading "Capital Reserve in Respect to Share-Based Payment Transactions".

Q. Employee Benefits:

(1) Post-Employment Benefits:

Post-employment benefits granted by the Group include mainly a severance pay liability and pension liability to the widow of a retired manager. Post-employment benefits are partially defined contribution plans and defined benefit plans. Expenses for the obligation for contributing to defined contribution plans are recognized in profit or loss or capitalized (mainly under the cost of intangible assets within the framework of self-development costs of computer software) on the date of providing the work services for which the obligation to make a contribution arises.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Q. Employee Benefits (Cont.):

(1) Post-Employment Benefits (Cont.):

Expenses in respect to defined benefit plans are recognized in profit or loss or capitalized under the cost of assets (within the framework of self-development costs of computer software) using the projected unit credit method, based on actuarial studies conducted at the end of each reporting period. The present value of the Group's liability in respect to the defined benefit plan is determined by discounting the plan's expected future cash flows, using a discount rate that conforms with market returns on high quality corporate bonds, denominated in the currency in which the benefits will be paid in respect to the plan, and having maturity periods that are almost identical to the expected settlement dates of the plan. In accordance with the Group's accounting policy, net interest cost is included in expenses in respect to employee benefits, in profit or loss.

Actuarial gains and losses are recognized in other comprehensive income, as incurred, or capitalized to the cost of the asset (within the framework of self-development costs of computer software). Actuarial gains and losses recognized in other comprehensive income will not be reclassified later to profit or loss.

Plan assets are measured at fair value. Interest income on plan assets is determined using the discount rate of the commitment at the beginning of the period and is recognized in profit or loss as part of net interest cost. The difference between the interest income on plan assets and the total return on plan assets is recognized in other comprehensive income and will not be reclassified later to profit or loss.

The Group’s liability in respect to a defined benefit plan, which is presented in the Statement of Financial Position, comprises the present value of the obligation for the defined benefit, net of the fair value of the plan assets.

(2) Other Long-Term Employee Benefits:

Other long-term employee benefits are benefits which are not expected to be fully paid before 12 months after the annual reporting period in which the employee provides the related service and do not constitute a post-employment benefit or termination benefits.

Other employee benefits of the Group include accrued vacation and seniority grants. Expenses in respect to these benefits are recognized in profit or loss or are capitalized to the cost of assets (within the framework of self-development costs of computer software) in accordance with the projected unit credit method using actuarial valuations carried out at the end of each reporting period. The present value of the Group's obligation for these benefits is determined by discounting the expected future cash flows in respect to the benefits by market returns on high quality corporate bonds, denominated in the currency in which the other long-term employee benefits will be paid, and having maturity periods that are almost identical to the expected settlement dates of these benefits.

Actuarial gains and losses are recognized in profit or loss when incurred or are capitalized to the cost of the asset (within the framework of self-development costs of computer software).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Q. Employee Benefits (Cont.):

(3) Short-Term Employee Benefits:

Short-term employee benefits are benefits that are expected to be fully paid before 12 months after the end of the period in which the employee provides the related service.

Short-term employee benefits include, mainly, Company liabilities for bonus and wage payments (including social benefits). These benefits are recognized in profit or loss or capitalized under the cost of assets (self-development costs of computer software) on the date they arise. The benefits are measured on an undiscounted basis the Company is expecting to pay. The difference between the sum of short-term benefits the employee is eligible to receive and the amount paid in respect thereto is recognized as a liability.

(4) Termination Benefits:

Termination benefits are benefits payable as a result of either a decision of the Group to terminate an employee's employment before normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Company's obligation for these benefits is initially recognized in profit or loss when the Group cannot withdraw the offer.

R. Classification of Interest Paid, and Interest and Dividends Received in the Statement of Cash Flows:

The Group classifies cash flows from interest and dividends as received, and cash flows in respect to interest paid, as cash flows that were used for**,** or provided by**,** operating activities. Cash flows in respect to taxes on income, as a rule, are classified as cash flows used for operating activities, except for those that are readily identifiable with cash flows that were used for investing or financing activities.

S. New Standards Issued but Not Yet Effective and Not Early Adopted by the Group, which are Expected to Have or Might Have an Impact on Future Periods:

- **IFRS 9 "Financial Instruments":**

International Financial Reporting Standard IFRS 9 (2014), "Financial Instruments" ("Standard") is the final standard issued as part of the financial instruments project. This Standard supersedes the earlier stages of IFRS 9, originally issued in 2009, 2010 and 2013. The final Standard includes provisions for the classification and measurement of financial assets that have been amended vis-à-vis those issued in the first stage (in 2009) and also includes provisions for classifying and measuring financial liabilities issued in the second phase (in 2010) and presents a new model for considering any expected loss from impairment.

The Standard requires that financial assets be recognized and measured as follows:

- Debt instruments will be classified and measured after initial recognition under one of the following alternatives: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. The determination of the measurement model will be after considering the entity's business model vis-à-vis managing financial assets and depending on the characteristics of the contractual cash flows generated by these financial assets.

- Debt instruments will be reclassified only if the entity changes its business model for managing financial assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

S. New Standards Issued but Not Yet Effective and Not Early Adopted by the Group, which are Expected to Have or Might Have an Impact on Future Periods (Cont.):

- **IFRS 9 "Financial Instruments" (Cont.):**

Impairment:

The new impairment model, which is based on expected credit losses, will be implemented, inter alia, for debt instruments measured at amortized cost or at fair value through other comprehensive income.

The impairment provision will be in regard to expected losses in accordance with the likelihood of a default event in the 12 months after the reporting date, or according to the likelihood of a default event over the expected lifetime of the instrument. Impairment over the expected lifetime is required if the credit risk has increased significantly since initial recognition of the asset. Another approach is applied if the financial asset is for purchased or originated credit-impaired financial assets.

The new impairment model adds presentation and disclosure requirements.

Application date and possibilities of early adoption:

The Standard is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

In general, provisions of the Standard for assets and liabilities will be applied retrospectively, with certain exceptions specified by the transitional provisions of the Standard. It was also provided that despite the retroactive application, companies adopting the Standard for the first time will not be required to adjust their comparative figures for prior periods. Moreover, the comparative figures will be adjusted only when their adjustment, as noted, does not make use of hindsight.

The Company has decided to change its investment policy from January 1, 2018, whereby its business model will be to hold securities for trade, rather than to manage its portfolio with the aim of collecting the forecasted cash flows from the bonds, as was done until now. Accordingly, from January 1, 2018, the Company's securities will be classified under the "fair value through profit or loss" alternative. The balance of the Revaluation Reserve for Available-For-Sale Financial Assets as of December 31, 2017 will be reclassified to the balance of Retained Earnings.

Furthermore, in the opinion of the Company's management, the Standard's initial implementation is not expected to have a material quantitative effect on the Company's financial statements.

- **IFRS 15 "Income from Contracts with Customers":**

The new Standard provides a comprehensive and uniform mechanism that regulates the accounting treatment of revenue arising from contracts with customers. The Standard supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts" and all related interpretations. The core principle of the Standard is that the recognition of revenue reflects the transfer of goods or services to customers in an amount reflecting the economic benefits that the entity expects to receive in return. To this end, the Standard stipulates that revenue will be recognized when the entity transfers to the customer the goods and/or services listed in the contract, and the customer obtains control of those goods or services.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

S. New Standards Issued but Not Yet Effective and Not Early Adopted by the Group, which are Expected to Have or Might Have an Impact on Future Periods (Cont.):

- **IFRS 15 "Income from Contracts with Customers" (Cont.):**

The Standard provides a five-step model for implementing this principle:

1. Identify the contract (or contracts) with the customer.
2. Identify the contract's performance obligations.
3. Determining the transaction price.
4. Allocation of the transaction price to performance obligations.
5. Recognition of revenue when the entity complies with any performance obligations.

Implementation of the model depends on the specific facts and circumstances of the contract and at times requires extensive use of judgment.

The Standard also provides extensive disclosure requirements for contracts with customers, the significant estimates and changes that were used in applying the provisions of the Standard, this being in order to enable users of the financial statements to understand the nature, quantity, timeliness and reliability of revenue and cash flows arising from contracts with customers.

The Standard will be required for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. In general, the Standard will be applied retroactively; however, entities will be allowed to choose certain adjustments under the transitional provisions of the Standard regarding any implementation vis-à-vis previous reporting periods.

In the opinion of the Company's management, the Standard's initial implementation is not expected to have a material effect on the financial statements.

- **IFRS 16 "Leases":**

The new Standard, which was published in January 2016, eliminates IAS 17 "Leases" and the interpretations associated therewith and establishes principles for the recognition, measurement, presentation and disclosure of leases in relation to both parties to the transaction, namely the customer ("lessee"") and the supplier ("lessor").

The new Standard cancels the differentiation that currently exists, in relation to the lessee, between finance leases and operating leases and establishes a unified accounting model for all types of leases. Under the new model, in respect to every leased asset, the lessee is required to recognize, on the one hand, an asset in relation to the usage rights and, on the other hand, a financial liability in relation to the lease fees.

The provisions for recognizing an asset and liability as aforesaid will not apply in regard to assets leased for a period of up to just 12 months and also in regard to leases of assets with a low value.

The Standard does not change the accounting treatment currently being applied in the books of the lessor.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

S. New Standards Issued but Not Yet Effective and Not Early Adopted by the Group, which are Expected to Have or Might Have an Impact on Future Periods (Cont.):

- **IFRS 16 "Leases" (Cont.):**

The Standard will become mandatory for annual reporting periods commencing on or after January 1, 2019. Earlier application is permitted, but only if IFRS 15 "Revenues from Contracts with Customers" has also been applied. Generally, the Standard will be applied retrospectively, but entities may elect certain exemptions as part of the transitional provisions of the Standard in regard to "its application to prior periods".

At present, the Company is reviewing the impact of the Standard on its financial statements. The main expected effects, as assessed at the moment, are an increase in the scope of the Company's assets and liabilities, as a result of all the Company's leasing transactions being recorded as an acquisition of usage rights on the assets side against an obligation to pay leasing fees on the liabilities side.

The effect on the Company's profit and loss will be expressed through recognizing a higher expense at the beginning of the leasing period and a lower expense toward the end of the period, and through changing the classification of the expenses in the statement of profit or loss, a reduction in the leasing expenses against an increase in the depreciation and amortization expenses and an increase in the financing expenses.

The effect on the cash flows will be expressed through an increase in the cash flows from the Company's operating activities, due to classifying the principal and interest component in the lease payments as a cash flow for financing activities.

During 2018, the Company will formulate its accounting policy regarding the transitional provisions, pursuant to which the new Standard will be applied and, consequently, it will quantify the effect at the time of the Standard's initial implementation. At present the Company anticipates that it will adopt the provisions of the Standard on the date of its obligatory implementation.

- **Publication of IFRIC 23 "Uncertainty Over Income Tax Treatments":**

The interpretation clarifies the recognition and measurement provisions relating to taxes on income when uncertainties exist regarding the position of the tax authorities. The interpretation prescribes that the entity should determine whether the uncertain tax treatments need to be considered independently or collectively, as part of a group of uncertain tax positions. Likewise, the entity needs to consider whether it is probable that the tax authorities will accept the treatment it has adopted, or plans to adopt, in connection with the uncertain tax positions – on the assumption that the tax authorities will examine any amounts reported to it by the entity and will have full knowledge of the relevant information when doing so (a 100% exposure risk). If this is the case, the entity is required to determine the accounting treatment for the uncertain tax positions on a basis consistent with the tax treatments it has adopted or plans to adopt. If this is not the case, the entity is required to reflect the effect of the uncertainty by using the expected value method or the most likely amount method, according to which method provides better predictions of the resolution of the uncertainty.

In the opinion of the Company's management, the implementation of the interpretation on the Company's financial statements is not expected to have a material effect.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

T. Standards, Amendments to Standards and Interpretations Issued that are not Applicable to the Group:

In addition to said amendments, as of the financial statement date, other interpretations and amendments to various standards had been issued, which Company management estimates are not applicable to the Group.

NOTE 3 - CONSIDERATIONS IN APPLYING ACCOUNTING POLICIES AND KEY FACTORS FOR UNCERTAINTY IN AN ESTIMATE:

Key Factors for Uncertainty in an Estimate:

When preparing the financial statements, Company management is required to use estimates or approximations regarding transactions or matters whose ultimate impact on the financial statements cannot be established accurately at the time of preparation. The main basis for determining the quantitative value of such estimates are the assumptions that management decides to adopt, considering the circumstances of the object of estimation, as well as the best information available at the time. Naturally, since these estimates and approximations are the result of exercising judgment in an environment of uncertainty, which may be at times especially significant, changes in the basic assumptions arising from changes that are not necessarily dependent on management, as well as additional information that may become available to the Company only in the future, that was not available to the Company when preparing the estimate, might lead to changes in the quantitative value of the estimate, and accordingly, might also affect the Company's financial position and operating results.

The estimates and underlying assumptions are regularly reviewed by management. Changes in accounting estimates are recognized only in the period in which there was a change in the estimate, to the extent that the change affects only that period or is recognized in said period and in future periods, when the change affects both the current period and future periods.

The Following are Areas, the Valuation of Which in the Financial Statements Requires Estimations and Approximations, and which Group Management Estimates May Have a Significant Effect:

A. Employee Benefits:

The present value of the Group's severance pay obligation to its employees is based on a number of factors, which are determined using actuarial estimation that is based on a number of assumptions, including a discount rate and an expected rate of salary increases. Changes in the actuarial estimates may affect the book value of the obligation of the Group to make retirement, severance and pension payments. The Group estimates the discount rate once a year, based on the return on high quality corporate bonds. Other key assumptions are determined on the basis of past experience of the Group. For more information on the assumptions used by the Group, see note 13.

B. Impairment Assessment of Property and Equipment and Intangible Assets:

The Group examines at the end of each reporting period if there are any signs indicating impairment losses in respect to its property and equipment and intangible assets. If any indication exists, it must estimate the recoverable amount of the asset to determine the amount of impairment loss, if any.

NOTE 3 - CONSIDERATIONS IN APPLYING ACCOUNTING POLICIES AND KEY FACTORS OF UNCERTAINTY IN AN ESTIMATE (CONT.):

The Following are Areas, the Valuation of Which in the Financial Statements Requires Estimations and Approximations, and which Group Management Estimates May Have a Significant Effect (Cont.):

B. Impairment Assessment of Property and Equipment and Intangible Assets (Cont.):

A recoverable amount is the higher of the asset's fair value less costs to sell, and of its value in use. To assess value in use, estimated future cash flows are discounted to present value using the pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in respect to which the estimated future cash flows have not been adjusted.

A key feature of impairment in the construction of TASE's new office building ("property") that was identified by the Group in 2013, involves excess cash outflows that were used for the construction of the property, which were significantly higher than that originally budgeted. Accordingly, the Company examined the recoverable amount, which was determined according to fair value less costs to sell.

To determine the fair value of the property, Group management relied mainly on an assessment prepared by an independent, external real estate appraiser, with the knowledge, experience and expertise required. The fair value of the property as of December 31, 2013, finished and ready for occupancy, totaled NIS 260 million. Costs of disposal (such as selling expenses, estimated land betterment levies, removal costs, etc.), as of December 31, 2013, totaled NIS 4.9 million.

For more information on the amount of impairment loss recognized in Group profit or loss in 2013, see note 11 A.

In accordance with IAS 36, Group management is required to evaluate at the end of each reporting period whether there is any substantial sign indicating any change in the amount of the impairment loss of the asset recognized in previous periods.

Group management has re-examined the primary indicators, as relevant to the reasonableness of the recoverable amount of the property. In accordance with said examination, as of December 31, 2017, it was not required to update the impairment provision.

C. Share-Based Payment:

Share-based payments for employee services are measured on the basis of the fair value of the Company's equity instruments on the grant date. The fair value of shares for employees is determined using valuation models that are based – inter alia – on the TASE value, which is assessed using a discounted anticipated cash flows model and with the deduction of a discount for lack of marketability on the grant date, while taking into consideration assumptions regarding discount, growth rate, standard deviation and public issuance dates. For further details, see note 14.

NOTE 3 - CONSIDERATIONS IN APPLYING ACCOUNTING POLICIES AND KEY FACTORS OF UNCERTAINTY IN AN ESTIMATE (CONT.):

The Following are Areas, the Valuation of Which in the Financial Statements Requires Estimations and Approximations, and which Group Management Estimates May Have a Significant Effect (Cont.):

D. Deferred Tax Assets:

The Group recognizes deferred tax assets and deferred tax liabilities based on differences between the carrying amounts of the assets and liabilities and the amounts used for tax purposes. The Group regularly reviews the recoverability of the deferred tax assets in its accounts based on historical taxable income, projected future taxable income and anticipated timing of the reversal of the temporary differences. If the Group will be unable to generate sufficient taxable income in the future, or in the case of a material change in effective tax rates in the period when the underlying temporary differences become taxable or deductible, the Group may be required to cancel some of its deferred tax assets or increase some of its deferred tax liabilities, and thus its effective tax rate may increase and adversely affect operating results.

In accordance with a forecast of taxable income performed by the Company, the Company predicts that, within a timeframe of 5-7 years, it will have sufficient taxable income to utilize the deferred tax assets.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY:

The operations of the TASE Group ("the Group") involve exposure to various financial risks, mainly – credit risk, liquidity risk and market risk; but also involve exposure to settlement risk and other risks (business risk, operational risk, etc.), the materialization of which could lead to a loss and to a material reduction in the Group's equity.

The Group's exposures arise mainly from the clearing operations performed by TASE-CH and MAOF-CH ("the Clearing Houses") in which the Clearing Houses are obligated as a CCP, as well as from other operations of the Group (e.g., investment in securities). As a CCP, TASE-CH and MAOF-CH ensure the execution of transactions in securities (other than derivatives) and transactions in derivatives (options and futures) that are cleared on each of them, respectively, which were executed on TASE. Should a member of either TASE-CH or MAOF-CH be unable to fulfill its obligations, the relevant Clearing House will be obligated to fulfill its undertaking as a CCP toward the other Clearing members and to fulfil the defaulting Clearing member's obligations, as well as to handle the exposures, if any, created for the Clearing House incidental to the default event in accordance with the Clearing House's By-Laws. In this regard, transactions in securities also include transfers to custody (on TASE) and transactions in securities that were executed within the trading framework of the MTS – Multilateral Trading System ("on-exchange transactions in securities").

In order that the Group will be able to fulfill the undertaking of the Clearing Houses as a CCP and attain its strategic and business goals, the Group's risk management policy is designed to establish an effective organization-wide risk management setup to ensure its stability, while strengthening its ability to identify, monitor and manage its risks.

The Clearing Houses' risk management is consistent with international standards, as prescribed for financial market infrastructures by CPMI(CPSS)-IOSCO (PFMI), and with the Israel Securities Authority's directive to ensure the proper functioning of TASE-CH and MAOF-CH that was issued under Section 50C(b) of the Securities Law (Clearing Houses' Stability Directive"), this being in accordance with the declaration made by the Israel Securities Authority regarding this on June 29, 2017.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

Presented below is a summary of the main financial risks to which Group is exposed in the course of its aforementioned activity, as well as a summary of the various measures taken by it to manage and mitigate those risks:

A. Credit Risk

(1) Risk Profile

Credit risk is the risk of a loss being caused to the Group in the event of a counterparty, whether a Clearing member, custodian bank, or other entity, being unable to meet fully its obligation when due, or at any time in the future.

In regard to the Clearing Houses' undertaking to act as a CCP in transactions in securities or in transactions in derivatives, as the case may be, each Clearing House has a material exposure to counterparty credit risk, which is the risk that a Clearing member will not be able to meet its obligation in a transaction toward the Clearing House, when due or at any time in the future, and as a result the Clearing House will be required to fulfill the obligations of the defaulting Clearing member toward the other Clearing members, as stated. MAOF-CH will be required to also attend to the open positions of the defaulting Clearing member in respect to the derivative transactions performed.

The realization of credit risk in general, and counterparty credit risk in particular, might also lead to the realization of liquidity risk and replacement cost risk, as set forth in paragraphs B and D of this note below.

As of December 31, 2017 and December 31, 2016, MAOF-CH's open positions as a CCP (at fair value after netting) amounted to NIS 1,740 million and NIS 1,231 million, respectively. For further details, see note 8.

The total current credit exposure of TASE-CH, stemming from its undertaking as a CCP, is equal to the total amount of the current exposures for each of its members, with each of the exposures being calculated as the total difference between the monetary value of the buy transactions and the monetary value of the sell transactions on the trading date – provided that the difference is positive. The size of the exposure at December 31, 2017 and December 31, 2016 is NIS 220 million and NIS 30 million, respectively. No assets and liabilities are recognized in the financial statements for these balances as they are recorded on the settlement date of the transaction, and not on the date of executing the transaction, being transactions carried out in a regular way, as noted in note 2 L (2) (a). As of December 31, 2016 (a Saturday), TASE-CH's credit exposure was low, as most of the transactions conducted on the last trading day of that week had already been cleared on Friday, December 30, 2016.

The Group's exposure to the other credit risks is not material due both to its current assets and to it having an investment policy which restricts the exposure to credit risk in its investment portfolio. See paragraph D (2) (a) of this note below and note 8 regarding the exposure to credit risk for the Group's assets.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

A. Credit Risk (Cont.)

(2) Risk Management and Mitigation Measures

(a) Minimum Qualification Terms for Membership of TASE-CH and MAOF-CH

Every TASE member seeking to be accepted as a TASE-CH or MAOF CH Clearing member is required to comply with the membership qualification terms and the other obligations imposed on it pursuant to the By-Laws of the Clearing Houses, which include an undertaking by every member (apart from the Bank of Israel) to participate in the Clearing Houses' Default Funds, to deposit collateral in respect to its contribution to the Default Funds, to deposit margin in respect to transactions in derivatives and to deposit additional collateral in respect to its activity at the Clearing Houses, should it be requested to do so.

All TASE-CH or MAOF CH Clearing members are subject to continuous supervision over their financial stability, with members that are banks being supervised by the Supervisor of Banks, by means of the directives of the Supervisor of Banks, and members that are not banks being subject to supervision by TASE, by means of the full array of requirements in TASE's Rules, which include, inter alia, minimum capital and liquidity requirements, requirements for the establishment of an adequate risk management setup, requirements to ensure all proper corporate governance, and so forth.

As of December 31, 2017, MAOF-CH had 9 Clearing members, with 8 of them being banks and one of them being a non-bank member ("NBM"), while TASE-CH had 16 Clearing members, with 11 of them being banks (including the Bank of Israel) and the other Clearing members being NBMs.

(b) Financial Resources

Collateral

Clearing members of TASE-CH and MAOF-CH are required to deposit collateral with the Clearing Houses' Default Funds. In addition, Clearing members of MAOF-CH have margin requirements in respect to transactions performed for the exposure arising from those transactions.

The assets serving both as collateral in respect to the Default Fund and also as margin in respect to transactions in derivatives, as referred to above, are charged in favor of the Clearing Houses. By virtue of the Securities Law, a charge on securities or funds, which serve to guarantee the obligations of a Clearing member toward TASE, is also valid toward other creditors of the Clearing member. The charge will be deemed to be a first-ranking fixed charge, granted by the Clearing member in favor of the Clearing House, if the Clearing House has control over the assets in one of the ways prescribed in the law. In addition, it is provided that the realization of the charge in favor of the Clearing Houses can be done by the Clearing House itself, without a court order or an order of the chief judgment enforcement officer, subject to the terms and conditions stipulated in the law.

On the occurrence of a default event, TASE-CH and MAOF-CH may make use of the assets deposited as collateral in order to fulfill all the obligations of the defaulting Clearing member, in accordance with the collateral realization order prescribed in the By-Laws of each of the Clearing Houses, as the case may be.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

A. Credit Risk (Cont.)

(2) Risk Management and Mitigation Measures (Cont.)

(b) Financial Resources (Cont.)

Collateral Deposited with the Clearing Houses (Cont.)

- **The Clearing Houses' Default Funds**

  The Default Fund of each of the Clearing Houses is updated every quarter but is monitored on a daily basis and can be updated at times other than those stated in the By-Laws, at the discretion of the Clearing House and subject to the terms and conditions stipulated in its By-Laws. The methodology for determining the size of the Default Funds and the manner of allocating them between the Clearing members is set out in detail in each of the Clearing House's By-Laws.

  In the reporting period, collateral for the Default Funds was deposited by the members of the Clearing Houses, as required.

- **Margin at MAOF-CH**

  The margin requirements at MAOF-CH is calculated according to the results from a model of an array of scenarios, as specified in the MAOF-CH By-Laws, which is used to assess the maximum loss that could be caused to an investor in a portfolio that includes options and futures as a result of volatility in the prices of the underlying assets and/or volatility in the standard deviation. The level of the margin needed at any point in time depends on the price of the underlying assets, on the level of volatility in the market (the standard deviation), on the rate of interest and on the length of time to expiration.

  The margin requirements for members is calculated by the real-time computer system ("MABAT"). The system issues an alert, in real time, when a member is required to provide additional margin, and in such case, the member is required to deposit the margin within a prescribed timeframe.

  The required margin collaterals were deposited by MAOF-CH members during the reporting period, as necessary.

Contribution Against Default Waterfall Allocated from the Clearing Houses' Equity

After realizing all the collateral given by the defaulting Clearing member, and prior to realizing the collateral deposited by other Clearing members, the Clearing Houses are obligated to pay, in respect to the obligations of the defaulting Clearing member, from their own resources, an amount equivalent to 25% of their total capital requirements in respect to credit risk, market risk, operational risk and business continuity and reorganization, with this being in accordance with the Clearing Houses' Stability Directive.

A contribution against default waterfall allocated from each of the Clearing Houses' equity is included within the framework of each of the Group's capital and liquidity requirements, as detailed in note 5.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

A. Credit Risk (Cont.)

(2) Risk Management and Mitigation Measures (Cont.)

(b) Financial Resources (Cont.)

Contribution Against Default Waterfall Allocated from the Clearing Houses' Equity (Cont.)

The following table presents details of the total financial resources held by Group and by each of the Clearing houses for the purpose of coping with a Clearing member's default.

	December 31,	
	2017	2016
	NIS, in millions	
Total margin requirements with MAOF-CH	2,774	2,548
Total collateral required to be deposited in the MAOF-CH Default Fund (*)	879	843
Total collateral required to be deposited in the TASE-CH Default Fund (*) (**)	768	518
Contribution against default waterfall allocated from the Group's equity (***)	28	28
Total financial resources	4,449	3,937

(*) At the financial statements' approval date, the total collateral required to be deposited in the Default Fund of MAOF-CH and TASE-CH amounts to NIS 896 million and NIS 779 million, respectively.
(**) From June 1, 2017, the TASE-CH Default Fund is calculated and updated on the basis of new methodology, which was approved by TASE-CH's Board of Directors on May 25, 2017, in accordance with the Clearing Houses' Stability Directive.
(***) As of December 31, 2017, the contribution against default waterfall allocated from the Group's equity in respect to MAOF-CH and TASE-CH totaled NIS 7.5 million and NIS 20.6 million, respectively (as of December 31, 2016 – NIS 7.5 million and NIS 20.2 million, respectively).

(c) Netting Clearing Member's Obligations

The Clearing Houses' By-Laws provide that, in the event of a member not fulfilling its obligations toward the Clearing Houses and in other instances detailed in the By-Laws, the Clearing Houses have the right to set off any obligation of a member toward them, of any type whatsoever, including in respect to their positions with different expiration dates against any obligation of the Clearing Houses toward that member.

(d) Additional Statutory Protections Regarding the Clearing Houses' Stability and the Settlement Finality

The Securities Law states that a TASE member, that buys securities on TASE which are cleared by TASE-CH or by MAOF-CH, is not entitled to the securities so purchased, unless the Clearing House has received the full consideration for them, with title to the securities being conferred on the Clearing House if the aforementioned full consideration has not been received. Likewise, the Securities Law states that a TASE member, that sells securities on TASE which are cleared by the Clearing House, is not entitled to the consideration received at the time of their sale, unless it has transferred to TASE-CH the securities that were sold as aforesaid.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

A. Credit Risk (Cont.)

(2) Risk Management and Mitigation Measures (Cont.)

(d) Additional Statutory Protections Regarding the Clearing Houses' Stability and the Settlement Finality (Cont.)

In accordance with the protection so prescribed in the Securities Law, TASE-CH has established a DVP (Delivery Versus Payments) clearing mechanism, which is intended to execute the transfer of the consideration simultaneously with the receipt of the securities, and vice versa, thereby also mitigating the exposure to settlement risk, as set forth in paragraph C of this note below.

On March 20, 2017, the Knesset passed an amendment to the Securities Law regarding the settlement finality, whereby a clearing order given to the Clearing House and a clearing action carried out by it cannot be canceled, other than in accordance with the Clearing House's rules. Such protection is also granted in the case of insolvency proceedings being instigated against a Clearing member that is a party to such an order or action, or against an officer serving with such a member, and all as stipulated in the Securities Law. Likewise, the Securities Law specifies that nothing in the insolvency laws is to be deemed as prejudicing the arrangements prescribed in the Clearing House's rules, including early termination arrangements, net calculation arrangements, fair value determination arrangements, and all as prescribed in the Securities Law.

(e) Policies, Procedures and Processes Followed by the Group and the Clearing Houses

The Group has policies, procedures and processes aimed at identifying, monitoring, estimating and managing its exposures to credit risk, in particular a policy and procedures that exist at each of the Clearing Houses to manage a Clearing member's default; these outline how the Clearing House will manage and react to a Clearing member default event, including the risks that have to be covered and the manner in which the Clearing Houses will use the protections at their disposal by virtue of the Securities Law and the Clearing Houses' By-Laws.

B. Liquidity Risk

(1) Risk Profile

Liquidity risk is the risk that the Group will not be able to meet its liquidity needs, on time and in full, either at the time of the default one of one of the Clearing Houses' member's, by virtue of each of them acting as a CCP, or for financing the Group's ongoing activities.

TASE-CH's material liquidity exposure at the time of a Clearing member's default arises not just from the amount of the defaulting Clearing member's obligations in the monetary clearing round of the Bank of Israel's "ZAHAV" system (a Hebrew acronym for Real Time Credits and Transfers) that TASE-CH will be required to fulfill in place of the Clearing member, provided that the latter has chargeable balances, but also from the need to realize the financial resources standing at TASE-CH's disposal for dealing with a default event, as detailed in paragraph A (2) (b) of this note above, for the purpose of fulfilling the aforementioned monetary obligations.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

B. Liquidity Risk (Cont.)

(1) Risk Profile (Cont.)

MAOF-CH's material liquidity exposure arises due to the Clearing House being a CCP to transactions, whereby it will be required to continue to meet its obligations in a transaction toward the other Clearing member that has not defaulted, including the final settlement of the future cash flows in the transaction, provided that the terms and conditions for doing so in accordance with the Clearing House's By-Laws are fulfilled. In addition, the Clearing House is exposed to liquidity risk upon a Clearing member's default due to the need to speedily realize the financial resources standing at its disposal – as detailed in paragraph A (2) (b) of this note above.

The Group does not have a material liquidity risk exposure in respect to its ongoing activities, despite the liquidity requirements for net liquid assets by the amount of the capital requirements in respect to contribution against default waterfall of each Clearing House (see A (2) (b) of this note above) and by the amount of the equity requirement in respect to business continuity and reorganization, which is calculated as the amount of the forecasted operating expenses for six months' activity – see note 5 for the Group's capital adequacy and liquidity adequacy.

The expected maturity dates for most of the financial liabilities arising from the clearing activities undertaken by TASE-CH are one day after the date of the financial statements.

The expected maturity dates for most of the financial liabilities arising from the clearing activities undertaken by MAOF-CH (payables in respect to open positions) are as follows:

	December 31,	
	2017	2016
	NIS, in thousands	
Up to one month after the date of the financial statements	845,987	868,797
1-2 months	866,640	333,105
2-3 months	18,014	10,647
Up to one year	8,929	18,358
Total financial liabilities from clearing activities *	1,739,570	1,230,907

* The total of the aforesaid financial liabilities from clearing activities and their fore expected maturity dates match the total of the financial assets from clearing activities and their expected maturity dates.

(2) Risk Management and Mitigation Measures

(a) Liquid Assets Deposited as Collateral

Within the context of the margin requirement at MAOF-CH and of the requirement for the deposit of collateral in the Default Fund at each of the Clearing Houses, Clearing members may deposit assets that are Government of Israel bonds, treasury bills and cash, thus ensuring a liquid mix of collateral that can be realized relatively quickly in the case of a Clearing member's default. As part of the requirement for the deposit of collateral in the Default Fund, every Clearing member is required to deposit collateral in cash at a rate of at least 25% of its total contribution to the Default Fund.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

B. Liquidity Risk (Cont.)

(2) Risk Management and Mitigation Measures (Cont.)

(a) Liquid Assets Deposited as Collateral (Cont.)

In June 2017, each of the Clearing Houses opened an account at the Bank of Israel for the purpose of depositing the cash that serves as collateral within the framework of the margin and Default Fund collateral requirement, which has been deposited by the Clearing members, with this being in order to ensure quick and assured access to such collateral and in order to mitigate other risks arising from depositing the collateral with commercial banks (e.g., credit risk). As of December 31, 2017, all the collateral deposited in cash is held in this account, other than the cash collateral (in an immaterial amount) deposited by one TASE-CH member, which is held at a commercial bank.

(b) Holding Liquid Assets and Minimum Liquidity Buffer

As of December 31, 2017, the Group holds particularly liquid assets, part of which is allocated in favor of the each of the Clearing Houses' minimum requirement, as referred to in note 5, whereby 93% of the Group's financial assets (excluding assets stemming from clearing activity in respect to open positions) are immediately liquid assets (cash and Government of Israel bonds), of which 12% is in cash, with this also being in accordance with the limits prescribed in the Clearing House's investment policy for mitigating the exposure to liquidity risk in the securities portfolio of the Group and each of the Clearing Houses.

(c) Guaranteed Liquidity Lines from the Bank of Israel and from Commercial Banks

In order to provide each of the Clearing Houses with liquidity in the event of a Clearing member's default, an agreement was signed by each of the Clearing Houses with the Bank of Israel in July 2017 for the receipt of liquidity against collateral comprising the securities deposited by the Clearing members in respect to their contribution to the Default Funds of each of the Clearing Houses and as part of MAOF-CH's margin requirement, in an outline based on a mechanism of repo transactions, with this being in accordance with guiding international standards published by CPMI-IOSCO and the Clearing Houses' Stability Directive, as referred to above. The agreement is valid for five years from the date of its signature.

In addition, TASE-CH has a line of liquidity from a commercial bank in an amount of up to NIS 30 million, against collateral in securities, in order to provide additional liquidity on the occurrence of a Clearing member's default, by liquidating TASE-CH's own resources, as set forth in paragraph A (2) (b) of this note above. In the reporting period, TASE-CH did not need to make use of the aforesaid line of liquidity. In regard to charges, see note 22 A.

C. Settlement Risk

(1) Risk Profile

Settlement risk is the risk that the settlement will not be properly completed, whereby the monetary consideration, the securities or the financial instrument will be transferred to the party to the transaction without the financial instrument, the securities, or the monetary consideration, as the case may be, being received simultaneously from the counterparty to said transaction. The realization of settlement risk could cause a material increase in the credit and liquidity exposures of the Clearing Houses as a CCP.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

C. Settlement Risk (Cont.)

(2) Risk Management and Mitigation Measures

In order to mitigate the risk inherent in the monetary settlement at each of the Clearing Houses, this settlement is carried out on the Bank of Israel's system for performing bank transfers: the "ZAHAV" system (a Hebrew acronym for Real Time Credits and Transfers), which is an advanced system for the settlement of shekel payments in Israel, in real time and with finality (RTGS: Real Time Gross Settlement).

In order to mitigate the risk inherent in the transactions' settlement at the Clearing House, the settlement is done using a DVP (Delivery Versus Payments) settlement mechanism, whereby the clearing of the securities is done in synchronization with the monetary settlement on the Bank of Israel's "ZAHAV" system. TASE-CH will not clear transactions (neither the monetary consideration nor the securities), in which a Clearing member has sold securities, if it possesses insufficient securities to carry out those transactions at the time prescribed in the By-Laws (pending transactions) – as to how the Clearing House copes with such instances, see paragraph D (2) (b) of this note below.

The Group has a policy, accepted practices and procedures aimed at mitigating the settlement risks, including the establishment of communication procedures for transmitting alerts and notifications relating to the results of clearings performed or expected to be performed.

D. Market Risk

(1) Risk Profile

Market risk is existing or future risk that changes in market prices (such as exchange rates, the Consumer Price Index and margin in the markets), will have an adverse effect on the Group's income and equity or on the value of its holdings of financial instruments.

In the ordinary course of business activities**,** the Group is exposed to market risk, particularly interest risk and replacement cost risk, arising from the investment of the its monetary balances in bank deposits at variable interest and from the investment in financial instruments at fixed interest that are measured at fair value.

The Group's operations (other than monetary investments) do not involve a material exposure to linkage basis risk.

As a CCP, TASE-CH is exposed to market risk in respect to transactions in securities in which insufficient securities are transferred in respect thereto at the time specified in the By-Laws ("pending transactions"). The exposure represents the difference between the monetary value of the pending transactions at the reporting date and the monetary value of the pending transactions on the date of executing the transactions – in cases where the monetary value of the transactions has risen. The exposure in respect to pending transactions as of December 31, 2017 and December 31, 2016 is not material.

Furthermore, upon default by a Clearing member**,** the Group is exposed to replacement cost risk that may be caused both by a decrease in the value of assets serving as collateral and by a change in the value of the open positions and the securities as a result of the Clearing member's nonfulfillment of its obligations.

NOTE 4 - THE FINANCIAL RISKS MANAGEMENT POLICY (CONT.):

D. Market Risk (Cont.)

(2) Risk Management and Mitigation Measures

(a) Measures for Managing and Mitigating the Market Risk Inherent in the Group's Investment Portfolio

In order to manage and mitigate these risks, the Group has an investment policy that is approved every year by the Board of Directors. The policy prescribes that the Group's monetary balances are to be invested in Government of Israel bonds, whose inherent credit risk is not material. The Group also restricts the duration of the portfolio and the repayment period, as well as limiting its exposure to changes in interest rates. In addition, the Group maintains a minimum capital buffer, both at the Group level and also at the level of each of the Clearing Houses, to absorb losses in respect to the possible materialization of market risk in the investment portfolio, with this being within the framework of the capital adequacy model that the Group is required to have in accordance with the Israel Securities Authority's directive – see details in note 5.

(b) Measures for Managing and Mitigating the Market Risk in Respect to Pending Transactions at TASE-CH

A TASE-CH member, to whose debit a pending transaction has been recorded, is required to deposit cash collateral to guarantee the exposure, with this being until the time when the shortfall in securities relating thereto is made up, whether this be by the Clearing member or by the Clearing House, as prescribed in TASE-CH's By-Laws.

(c) Measures for Managing and Mitigating the Market Risk Inherent upon the Occurrence of a Clearing Member's Default

The Group deals with replacement cost risks relating to the securities deposited by the Clearing members through "Haircuts" on the maximum value serving as security. The methodology for determining the maximum value of treasury bills and Government of Israel bonds that is based on a statistical model that, in turn, is based on the Value at Risk (VaR), which conforms with guiding international standards and the Israel Securities Authority's directive, as referred to above.

Within the framework of the methodology for estimating the size of the Default Fund, an estimate is made of the Clearing House's potential exposure upon the occurrence of a Clearing member's default, with this being based on the testing of extreme, but plausible, market conditions, as well as making an estimate of the potential supplementary exposure that the Clearing House could have in respect to market risk, with this being due to the need to speedily liquidate the collateral deposited in the Default Fund.

The margin requirements are calculated based on possible changes in prices in the volatility of the various underlying assets.

NOTE 5 - THE GROUP'S CAPITAL ADEQUACY AND LIQUIDITY ADEQUACY REQUIREMENTS:

The Group's capital adequacy and liquidity adequacy requirements are prescribed in the Clearing Houses' Stability Directive issued by the Israel Securities Authority. The requirements include the allocation of capital in respect to the Clearing House's exposure to credit risks (other than upon the occurrence of a Clearing member's default), market risk on the Clearing House's investment portfolio (interest risk), operational and legal risks, and to ensure business continuity and the reorganization of its business. Moreover, the requirements include, as stated, a minimum requirement in respect to the Clearing House's participation in the order of realizing collateral upon the occurrence of a Clearing member's default, at a rate of 25% of the aforementioned risks.

In the absence of any regulatory directive, the TASE capital adequacy and liquidity adequacy requirements are determined using internal models that were approved by TASE's Board of Directors in January 2015. Generally, the calculation of TASE's requirements, as referred to above, shares the same fundamentals as the calculation of the requirements prescribed for the Clearing Houses in the Clearing Houses' Stability Directive, other than the calculation of the capital requirement in respect to market risk and the definition of qualifying capital.

Capital Adequacy – Capital Requirements, Qualifying Capital Base and the Group's Capital Adequacy Position as of Reporting Date:

	December 31,	
	2017	2016
	NIS, in thousands	
Capital requirements in respect to the risk components:		
Credit risk	1,867	1,703
Market risk	772	401
Legal and operational risk*	37,660	37,962
Business continuity and reorganization**	104,092	107,990
Contribution against default waterfall	28,112	27,711
Total capital requirements in respect to the risk components	172,503	175,767
Capital base components		
Retained earnings	500,630	514,900
Capital reserves	5,299	3,186
Remeasurement reserve of liabilities in respect to defined benefits	(9,094)	(7,642)
Capital reserve in respect to share-based payment transactions	27,380	-
Less:		
Intangible assets	(88,635)	(88,451)
Deferred tax assets	(15,472)	(18,030)
Total qualifying capital base	420,108	403,963
Capital surplus (qualifying capital base, less requirements)	247,605	228,196

* A capital allocation equivalent to 15% of the average gross income in the last twelve quarters.
** A capital allocation equivalent to six months' operating expenses (on an annual basis) with the necessary adjustments.

NOTE 5 - THE GROUP'S CAPITAL ADEQUACY AND LIQUIDITY ADEQUACY REQUIREMENTS (CONT.):

Liquidity Adequacy – Liquidity Requirements, Net Liquid Asset Base and Liquidity Adequacy Position as of Reporting Date:

	December 31,	
	2017	2016
	NIS, in thousands	
Liquidity requirements in respect to the risk components:		
Business continuity and reorganization	104,092	107,990
Contribution against default waterfall	28,112	27,711
Total requirements for liquid assets	132,204	135,701
Eligible liquid assets		
Cash and cash equivalents	28,095	22,133
Securities portfolio at fair value	187,497	173,625
Less – haircuts to the securities portfolio	(8,068)	(9,005)
Credit line	50,000	50,000
Less – current liabilities	(44,777)	(54,081)
Net liquid assets	212,747	182,672
Liquidity surplus (net liquid assets, less requirements)	80,543	46,971

TASE-CH's Capital Adequacy and Liquidity Adequacy as of Reporting Date:

	December 31,	
	2017	2016
	NIS, in thousands	
Capital adequacy position:		
Total capital requirements	103,061	101,056
Total qualifying capital base	117,225	113,181
Total capital surplus	14,164	12,125
Liquidity adequacy position:		
Total liquidity requirements	81,748	79,497
Total net liquid assets	109,635	106,461
Total liquidity surplus	27,887	26,964

MAOF-CH's Capital Adequacy and Liquidity Adequacy as of Reporting Date:

	December 31,	
	2017	2016
	NIS, in thousands	
Capital adequacy position:		
Total capital requirements	37,500	37,500
Total qualifying capital base	40,648	41,991
Total capital surplus	3,148	4,491
Liquidity adequacy position:		
Total liquidity requirements	20,526	20,466
Total net liquid assets	37,183	39,582
Total liquidity surplus	16,657	19,116

NOTE 6 - CASH:

A. Composition of Cash and Cash Equivalents:

	Interest Rate, December 31,	December 31,	
	2017	2017	2016
	%	NIS, in thousands	
Cash in banks		2,601	2,357
Short-term deposits	Primarily 0.01	25,494	19,776
		28,095	22,133

B. The cash restricted as to use held by TASE is a deposit held in a TASE account as collateral for an operating lease, as described in note 11 B.

C. Regarding liquidity risk management**,** see note 4 B.

NOTE 7 - RECEIVABLES AND PAYABLES RELATING TO OPEN DERIVATIVE POSITIONS:

The following is additional information in respect to open derivative position balances and respective collateral:

A. As a CCP, MAOF-CH has assets and liabilities for each of the futures and options cleared by MAOF-CH (see also note 2 L (2) (a)). The amount of assets reflects the fair value of the total liability of Clearing members to MAOF-CH. The amount of liabilities reflects the fair value of all liabilities of MAOF-CH to its Clearing members.

The amount of these assets and liabilities is calculated, after offsetting the fair value of the amounts of liabilities of a Clearing member to MAOF-CH against the fair value of the amount of liabilities of MAOF-CH to that member, in relation to the open positions of the member as of that particular expiration date.

The amounts of assets and liabilities, as above, do not include such offsets relating to the open positions of that member with different expiration dates. Regarding the fair value of the assets and liabilities that arise from the open positions of all members of MAOF-CH, which also takes into account the offsetting of debits and credits resulting from the members' open positions with different expiration dates, see note 8 D below.

B. The final expiration date of derivatives issued by MAOF-CH, up to reporting date is December 2018 (the expiration date of most of the derivatives is up to the end of February 2018).

C. Regarding the MAOF-CH Default Fund and related collateral, and collateral for derivative transactions of the Clearing members or under their responsibility, see note 4 A (2) (b).

NOTE 8 - FINANCIAL INSTRUMENTS:

A. Significant Accounting Policies:

The significant accounting policies and methods adopted in respect to financial assets and financial liabilities, including recognition criteria, measurement bases and recognition in profit or loss, are reported in note 2.

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

B. Financial Instrument Balances, by Category:

	December 31,	
	2017	2016
	NIS, in thousands	
Financial assets (*):		
Current assets:		
Cash and cash equivalents	28,095	22,133
Available-for-sale financial assets (**)	155,672	-
Financial assets at fair value through profit or loss:		
Assets derived from clearing operations – receivables in respect to open derivative positions	1,739,570	1,230,907
Financial assets at fair value through profit or loss – held for trading	31,825	17,227
Loans and receivables	16,723	15,566
Non-current assets:		
Cash restricted as to use	538	538
Available-for-sale financial assets (**)	-	156,398
	1,972,423	1,442,769
Financial liabilities:		
Current liabilities:		
Financial liabilities at fair value through profit or loss:		
Liabilities derived from clearing operations – payables in respect to open derivative positions	1,739,570	1,230,907
Other liabilities	19,996	15,105
Non-current liabilities:		
Other liabilities	538	538
	1,760,104	1,246,550

(*) The book value of the financial assets reported above reflects the Group's maximum exposure to financial assets' credit risk as of Statement of Financial Position date.

(**) For details regarding a change in the investment policy, see note 2 S.
The composition of the investment portfolio includes treasury bills and Government of Israel bonds, see note 4 D (2) (a).

C. Fair Value of Financial Instruments:

(1) The financial instruments of the Group include mainly cash and cash equivalents (including cash restricted as to use), marketable securities, available-for-sale financial assets, trade receivables, other receivables, trade payables, other payables, other liabilities and assets and liabilities in respect to open derivative positions.

The balances of the Group's financial instruments in the Statement of Financial Position as of December 31, 2017 and 2016 closely reflect their fair values.

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

C. Fair Value of Financial Instruments (Cont.):

(2) Financial Instruments Measured at Fair Value in the Statement of Financial Position:

Fair value measurements of financial instruments are classified using the following hierarchy:

Level 1 - fair value is based on quoted prices (unadjusted) in active markets for identical financial assets or liabilities;

Level 2 - fair value is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - fair value is based on inputs (assumptions) that are not based on observable market data.

The above classification is determined on the basis of the lowest level input (assumption) which is significant to the fair value measurement in its entirety.

Below are the Group's financial instruments measured at fair value, based on said levels:

	Receivables and Payables in Respect to Open Derivative Positions	Financial Assets at Fair Value Through Profit or Loss – Held for Trading	Available-For-Sale Financial Assets
	NIS, in thousands		
December 31, 2017:			
Level 1	697,879	31,825	155,672
Level 2	1,061,816	-	-
	1,759,695	31,825	155,672
Offset between Level 1 instruments, and Level 2 instruments, in the position of the same member on the same expiration date (see note 7 A above)	(20,125)	-	-
Total balance reported in the Statement of Financial Position	1,739,570	31,825	155,672
December 31, 2016:			
Level 1	1,030,486	17,227	156,398
Level 2	206,721	-	-
	1,237,207	17,227	156,398
Offset between Level 1 instruments, and Level 2 instruments, in the position of the same member on the same expiration date (see note 7 A above)	(6,300)	-	-
Total balance reported in the Statement of Financial Position	1,230,907	17,227	156,398

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

C. Fair Value of Financial Instruments (Cont.):

(2) Financial Instruments Measured at Fair Value in the Statement of Financial Position: (Cont.):

Assumptions Used to Measure the Fair Value of Receivables and Payables in Respect to Open Derivative Positions Measured at Level 2:

The fair value of open derivative positions in options is measured using the Black and Scholes model based on the following assumptions: the price of the underlying asset, the exercise price, time to expiration, NIS risk-free interest rate, foreign currency risk-free interest rate (in the case of exchange rate options) and the standard deviation of the return of the underlying asset.

The use of different assumptions could change the amounts of fair value, but without impact on profit or loss, since the open positions on the asset side and the open positions on the liabilities side are identical, as per note 2 L (2) above.

D. Offsets of Financial Assets and Financial Liabilities:

Financial assets and liabilities are reported in the Statement of Financial Position, in a net amount, only when there is a legally enforceable right of offset and there is an intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Assets and liabilities in respect to open derivative positions reported in the Statement of Financial Position have been calculated, after offsetting the fair value of the liabilities of the Clearing member to MAOF-CH, against the fair value of all liabilities of MAOF-CH to said member, resulting from open positions of said member, on the same expiration date.

These amounts do not include offsets arising from open positions of said member on various expiration dates.

Following is Information on Financial Assets and Liabilities, Available for Offset, by Instruments:

Instrument	Gross Amounts (Before Offset) of Assets/ Liabilities, in Respect to Open Derivative Positions	Amounts Offset in the Statement of Financial Position	Assets/ Liabilities in Respect to Open Derivative Positions, net, in the Statement of Financial Position
	NIS, in thousands		
December 31, 2017:			
Options*	1,937,791	198,221	1,739,570
December 31, 2016:			
Options*	1,736,382	505,475	1,230,907

* As of December 31, 2017 and December 31, 2016, there are no open positions in regard to futures.

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

D. Offsets of Financial Assets and Financial Liabilities (Cont.):

Following is Information on Financial Assets and Liabilities, Available for Offset, by Counterparty to a Transaction:

Financial Assets, Available for Offset, in Respect to a Transaction's Counterparty:

Counterparty	Assets Regarding Open Derivative Positions, net, in the Statement of Financial Position	Amounts to be Offset in the Event of Default	Margin Amounts (*)	Net Total
	NIS, in thousands			
December 31, 2017:				
Member C'	1,016,537	9,284	1,007,253	-
Member B'	622,808	4,696	618,112	-
Other members	100,225	50,113	50,112	-
	1,739,570	64,093	1,675,477	-
December 31, 2016:				
Member C'	776,207	9,236	766,971	-
Member I'	315,311	881	314,430	-
Other members	139,389	41,318	98,071	-
	1,230,907	51,435	1,179,472	-

(*) Margin amounts are reported in an amount that does not exceed the balance of assets in respect to open derivative positions, after all offsets in the event of default. The current margin requirement is higher than that shown in the table, and totals, as of December 31, 2017, NIS 2,774 million (as of December 31, 2016, NIS 2,548 million).

Financial Liabilities, Available for Offset, in Respect to a Transaction's Counterparty:

Counterparty	Liabilities Regarding Open Derivative Positions, net, in the Statement of Financial Position	Amounts to be Offset in the Event of Default	Net Total
	NIS, in thousands		
December 31, 2017:			
Member A'	1,227,519	3,491	1,224,028
Member H'	420,573	27,964	392,609
Other members	91,478	32,638	58,840
	1,739,570	64,093	1,675,477
December 31, 2016:			
Member A'	837,778	28,176	809,602
Member F'	223,694	2,322	221,372
Other members	169,435	20,937	148,498
	1,230,907	51,435	1,179,472

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

E. Interest Risks:

The Group has monetary surpluses that are placed in bank deposits and thus has a cash flows exposure to changes in interest.

The following table details the impact of a +/- 1% and a +/- 2% change in interest on the deposits (before the tax effect):

December 31, 2 0 1 7			December 31, 2 0 1 6		
Total Variable Interest Bearing Instruments	Change of +/- 1%	Change of +/- 2%	Total Variable Interest-Bearing Instruments	Change of +/- 1%	Change of +/- 2%
NIS, in millions					
25.5	0.25	0.51	19.8	0.2	0.4

In addition, the Group has investments in financial instruments bearing fixed interest rates, which are measured at fair value through profit or loss or through other comprehensive income, and is therefore exposed to changes in the fair value as the result of changes in the interest rates.

The following table details the impact of a +/- 1% and a +/- 2% change in the fair value of bonds, (before the tax effect):

	December 31, 2 0 1 7			December 31, 2 0 1 6		
	Total Fixed Interest-Bearing Instruments	Change of +/- 1%	Change of +/- 2%	Total Fixed Interest Bearing Instruments	Change of +/- 1%	Change of +/- 2%
	NIS, in millions					
Profit or loss	31.8	1.19	2.38	17.2	0.56	1.13
Other comprehensive income	155.7	5.78	11.57	156.4	5.87	11.74

NOTE 9 - INVESTMENTS IN INVESTEES:

Subsidiaries:

A. General:

Name of Company	Country of Incorporation	Rate of Holding of Equity and Voting Rights as of December 31, 2017 and 2016
MAOF Clearing House Ltd.	Israel	(*) 100%
Tel-Aviv Stock Exchange Clearing House Ltd.	Israel	100%
Tel-Aviv Stock Exchange Nominee Company Ltd.	Israel	(**) 100%

(*) TASE-CH holds 1 share of the 3,000,079 issued and paid up shares of MAOF-CH (the remaining shares are held by TASE).

(**) The Nominee Company is a wholly owned subsidiary of TASE, which was incorporated in Israel on October 25, 2017. The Nominee Company had no income in 2017 and commenced operations with clients on January 1, 2018.

NOTE 9 - INVESTMENTS IN INVESTEES (CONT.):

Subsidiaries (Cont.):

B. A dividend of NIS 40 million was received from MAOF-CH in 2015.

In regard to TASE's decision to provide a credit line to TASE-CH and to MAOF-CH, see note 21 D (1), and in regard to the grant of a loan to TASE-CH, see note 21 C (2) (b).

NOTE 10 - LAND RIGHTS:

A. In 2007, the Company signed agreements for the acquisition of title, possession, use and leasehold rights to land designated for the construction of a new building for TASE.

In 2010, the Company signed a lease agreement with the Tel-Aviv Municipality for underground space for a period of 49 years with an option for a 49-year extension, and paid lease fees of NIS 2.3 million, according to an appraisal report.

The Company relocated to its new offices in July 2014.

During January 2016, the Company pledged and/or charged all its rights in the land that serves as the TASE offices by granting a lien, in an unlimited amount, in favor of a banking corporation with which it had entered into an agreement for the receipt of a credit facility. For further details, see note 22 B.

B. Composition:

	As of December 31,	
	2017	2016
	NIS, in thousands	
Land title	20,172	20,172
Land under capital lease (lease rights for various periods ending 2107-3003)	39,808	40,052
	59,980	60,224

Most of the land rights have been registered in TASE’s name with the Land Registration Office. The registration of some land rights that are registerable has not yet been completed due to technical difficulties. TASE is taking steps for the registration.

NOTE 11 - PROPERTY AND EQUIPMENT:

A. Composition and Changes:

	Land and Building (1) (2)	Computer Systems and Related Equipment	Equipment and Systems	Furniture	Total
	NIS, in thousands				
Cost:					
Balance, January 1, 2017	193,044	77,880	44,618	7,316	322,858
Acquisitions during the year (3)	101	6,466	739	18	7,324
Disposals during the year	(35)	(2,483)	(189)	(59)	(2,766)
Balance, December 31, 2017	193,110	81,863	45,168	7,275	327,416
Cost:					
Balance, January 1, 2016	192,770	78,112	43,985	7,432	322,299
Acquisitions during the year	275	5,541	654	13	6,483
Disposals during the year	(1)	(5,773)	(21)	(129)	(5,924)
Balance, December 31, 2016	193,044	77,880	44,618	7,316	322,858
Accumulated Depreciation:					
Balance, January 1, 2017	7,451	49,863	8,223	976	66,513
Depreciation for the year	3,051	7,474	2,866	397	13,788
Disposals during the year	(3)	(1,990)	(644)	(9)	(2,646)
Balance, December 31, 2017	10,499	55,347	10,445	1,364	77,655
Accumulated Depreciation:					
Balance, January 1, 2016	4,431	45,827	5,377	582	56,217
Depreciation for the year	3,021	9,636	2,851	397	15,905
Disposals during the year	(1)	(5,600)	(5)	(3)	(5,609)
Balance, December 31, 2016	7,451	49,863	8,223	976	66,513
Depreciated Cost:					
December 31, 2017	182,611	26,516	34,723	5,911	249,761
December 31, 2016	185,593	28,017	36,395	6,340	256,345

(1) See note 10 for information on land rights.

(2) During 2013, the Group recognized an impairment loss of NIS 92.5 million for the building under construction. The loss is mainly the result of special adjustments and the special design of the building under construction, which resulted in increased building costs. The impairment loss was recognized in profit or loss under Loss – impairment of a building under construction. For further details, see note 3 B. The balance of the impairment provision as of December 31, 2017 and 2016 amounted to NIS 86,025 thousand and NIS 87,875 thousand, respectively.

(3) Includes capitalized payroll expenses amounting to NIS 502 thousand.

B. Operating Lease Arrangements:

(1) General:

The Group has entered into an operating lease arragement in respect to one of the floors in the builing that serves the Group, for a 5-year period that commenced in March 2016, which includes an extension option for a further 3 years.

NOTE 11 - PROPERTY AND EQUIPMENT (CONT.):

B. Operating Lease Arrangements:

(2) Minimum Future Lease Fees Receivable in Respect to Non-Voidable Operating Leases:

	As of December 31,	
	2017	2016
	NIS, in thousands	
In the first year	714	712
In the second year through the fifth year	1,590	2,297
Total	2,304	3,009

NOTE 12 - INTANGIBLE ASSETS:

Composition and Changes:

	Software and Licenses	Goodwill	Total
	NIS, in thousands		
Cost:			
Balance, January 1, 2017	185,161	492	185,653
Acquisitions	5,101	-	5,101
Capitalization of expenses – software development for internal use	11,042	-	11,042
Disposals during the year	(1,453)	-	(1,453)
Balance, December 31, 2017	199,851	492	200,343
Cost:			
Balance, January 1, 2016	174,320	492	174,812
Acquisitions	5,551	-	5,551
Capitalization of expenses – software development for internal use	12,101	-	12,101
Disposals during the year	(6,811)	-	(6,811)
Balance, December 31, 2016	185,161	492	185,653
Accumulated Amortization:			
Balance, January 1, 2017	97,202	-	97,202
Amortization	15,809	-	15,809
Disposals during the year	(1,303)	-	(1,303)
Balance, December 31, 2017	111,708	-	111,708
Accumulated Amortization:			
Balance, January 1, 2016	85,118	-	85,118
Amortization	16,283	-	16,283
Disposals during the year	(4,199)	-	(4,199)
Balance, December 31, 2016	97,202	-	97,202
Amortized Cost:			
December 31, 2017	88,143	492	88,635
December 31, 2016	87,959	492	88,451

NOTE 13 - EMPLOYEE BENEFITS:

A. Composition:

	As of December 31,	
	2017	2016
	NIS, in thousands	
Post-employment benefits under defined benefit plans (see paragraph B(1)(f) below):		
Retirement and termination liability	22,695	18,171
Pension liability	1,185	1,272
	23,880	19,443
Other long-term employee benefits (see paragraph C below):		
Vacation benefits not utilized	10,806	13,320
Seniority benefits	1,689	1,536
	12,495	14,856
Short-term employee benefits (see paragraph E below)	10,000	22,188
	46,375	56,487
Presentation in the Statement of Financial Position:		
Liabilities for employee benefits:		
Current	21,684	35,509
Non-current	24,691	20,978
	46,375	56,487

B. Post-Employment Benefits:

(1) Defined Benefits Plans:

(a) General:

Retirement and Termination Benefits Obligation:

Labor laws and the Israel Severance Pay Law require the Company to pay retirement benefits to employees at the time of their dismissal or retirement (including employees who leave the Company under other specified circumstances). The calculation of the obligation related to the termination of the employee-employer relationship is effected pursuant to a "special" collective agreement in effect, or any individual employment contract, and is based on the latest salary of the employee and also on employee tenure.

Such obligation is calculated using an actuarial estimate prepared by a qualified actuary. The present value of the obligation for defined benefits and the costs related to current service are measured through the use of the projected unit credit method.

The pension liability represents the Company’s obligation to pay the widow of a former CEO, who retired in 1983 (and died in 2011), a life annuity at 65% of the annuity to the former CEO. The pension liability has been included based on an actuarial calculation, discounted at a real interest rate of 1.63% that conforms to the real market return on corporate bonds for the period calculated (the same discount rate as at December 31, 2016).

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

B. Post-Employment Benefits (Cont.):

(1) Defined Benefits Plans (Cont.):

(b) Key Actuarial Assumptions in Respect to Retirement and Termination Benefits as of the End of the Reporting Period:

	As of December 31,	
	2017	**2016**
	%	**%**
Discount rate (*)	3.49	4.35
Forecasted rates of salary increases:		
Employees (in nominal terms)	4	4.5
Executives (in real terms)	2	2
Forecasted inflation rates	1.62	1.82
Rates of turnover:		
Employees (**)	1	1
Executives	-	-
Rate of retirement benefits on resignation	100	100

(*) The discount rate is based on the return on corporate bonds with the same term as the liabilities.

(**) This rate of turnover represents the Company's estimate of the turnover of employees who have at least 10 years of seniority. Employee turnover in the first ten years of employment is 3%.

(c) Sensitivity Analysis of the Main Actuarial Assumptions as of December 31, 2017:

The following sensitivity analysis has been prepared based on reasonably possible changes in actuarial assumptions at the end of the reporting period. The sensitivity analysis does not consider any existing interdependence between the assumptions:

(1) If the discount rate was increased by 1%, the defined benefit obligation would decrease by NIS 9,537 thousand. If the discount rate was decreased by 1%, the defined benefit obligation would increase by NIS 11,347 thousand.

(2) If the rate of an expected salary rise was increased by 1%, the defined benefit obligation would increase by NIS 10,471 thousand. If the rate of an expected salary rise was decreased by 1%, the defined benefit obligation would decrease by NIS 8,882 thousand.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

B. Post-Employment Benefits (Cont.):

(1) Defined Benefits Plans (Cont.):

(d) Changes in the Present Value of the Obligation in Respect to the Defined Benefits Plan:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Opening balance	94,826	93,547	89,865
Current service cost	3,975	3,833	4,011
Interest cost	4,004	4,054	3,959
Actuarial losses (gains) in respect to remeasurements:			
Arising from changes in financial assumptions	3,740	(3,476)	118
Arising from past experience	(1,727)	1,030	(969)
Arising from changes in demographic assumptions	(6)	-	-
Benefits paid in respect to severance compensation	(4,476)	(3,926)	(3,200)
Benefits paid in respect to pensions	(239)	(236)	(237)
Closing balance	100,097	94,826	93,547

(e) Changes in the Fair Value of Plan Assets:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Opening balance	75,383	75,453	77,021
Interest income from plan assets (*)	2,033	2,290	2,517
Actuarial losses in respect to the remeasurement of the return on plan assets	119	(2,378)	(2,352)
Deposits by the employer	4,036	3,931	4,158
Benefits paid	(4,476)	(3,913)	(5,891)
Closing balance	77,095	75,383	75,453

(*) After a transfer of benefits totaling NIS 1,238 thousand in 2017, NIS 1,072 thousand in 2016 and NIS 924 thousand in 2015.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

B. Post-Employment Benefits (Cont.):

(1) Defined Benefits Plans (Cont.):

(f) Reconciliation of the Present Value of Defined Benefit Plan Obligations and the Fair Value of Plan Assets to Assets and Liabilities Recognized in the Statement of Financial Position:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Present value of funded obligations	98,912	93,554	92,182
Fair value of plan assets	(77,095)	(75,383)	(75,453)
	21,817	18,171	16,729
Present value of unfunded obligations	1,185	1,272	1,365
Net liability derived from obligation for defined benefits	23,002	19,443	18,094

(2) Defined Contribution Plans:

Plans in Respect to Retirement and Termination:

Company employees working under the terms of the special collective agreements, are covered by executive insurance plans, by a pension fund or by another provident fund. For some of these workers, the collective bargaining agreement between the Company and the employees' representatives of 2005 provides that pension provisions be in lieu of severance pay under Article 14 of Severance Pay Law, 1963. In addition, agreements with some of the holders of personal contracts, including an agreement with the Chief Executive Officer, states that the Company will operate under the general authorization regarding employers' payments to the pension fund and to the insurance fund in lieu of severance pay under Article 14 of Severance Pay Law, 1963, as amended. Accordingly, Company severance payments for such employees, are in lieu of all severance payments for these employees, and no further accounting, upon employment termination, is made between the Company and the employee in respect to severance pay, and the Company is exempt from the payment of severance pay to these employees or to their survivors, all in accordance with Article 14 of Severance Pay Law, 1963. The total amount of expenses recognized in the profit or loss in respect to the defined contribution plans in the year ended December 31, 2017 amounted to NIS 2,972 thousand (2016 – NIS 2,491 thousand and 2015 – NIS 2,035 thousand).

C. Other Long-Term Employee Benefits:

(1) Vacation:

In accordance with the special collective agreement between the Company and representatives of the employees, the number of vacation days per year that each employee is entitled to is determined according to the seniority of the employee and his age.

In addition, under the collective agreement between the Company and its employees, the employees are entitled, under certain conditions specified in the agreement, to additional vacation days, some of which cannot be accumulated.

NOTE 11 - EMPLOYEE BENEFITS (CONT.):

C. Other Long-Term Employee Benefits (Cont.):

(1) Vacation (Cont.):

A special collective agreement ("the New Labor Agreement") that was signed in 2017 prescribes, inter alia, a ceiling for the accumulation of vacation days by Company employees engaged under the collective agreement. Vacation days in excess of the set ceiling were redeemed in 2017. The aforesaid did not have a material impact on the Company's results.

The quota of vacation days of Company employees engaged under personal employment agreements and limits on their accumulation are prescribed as part of the personal agreements.

The Company expects that unused vacation days at the end of the year when the service is rendered will not be fully utilized before 12 months from that date, and therefore the obligation for said, is measured as other non-current liabilities.

Regarding the presentation of liabilities in the Statement of Financial Position and despite this obligation being measured as a long-term benefit, the liability for vacation pay is classified under current liabilities, under employee benefits, due to the fact that the Company does not have an unconditional right to defer settlement of the liability after 12 months from the end of the reporting period.

Main actuarial assumptions for vacation pay at the end of the reporting period are:

	December 31,	
	2017	2016
	%	%
Discount rate	0.75	2.03
Forecasted rates of salary increases:		
Employees (in nominal terms)	4.2	4.2
Executives (in real terms)	2	2

(2) Seniority Grant:

Company employees customarily receive seniority grants totaling between NIS 1 thousand and NIS 8 thousand, net ,as follows – NIS 1 thousand upon reaching seniority of 15 years, NIS 2 thousand upon reaching seniority of 20 years, NIS 3 thousand upon reaching seniority of 25 years and so on, and every five years thereafter up to a maximum grant NIS 8 thousand.

D. Termination Benefits:

Personal employment agreements of a group of senior employees entitle them, in certain circumstances of termination of employment, before the end of the employment agreement, to a grant in an amount equal to three months' salary. Regarding the accounting policy – see note 2 Q above.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

E. Short-Term Employee Benefits:

Short-term employee benefits include, mainly, liabilities to employees in respect to salary and benefits in respect to grant payments.

(1) Compensation Model:

On July 2, 2015, TASE's Board of Directors, upon the recommendation of the Company's Audit Committee, approved a three-year compensation policy for the years 2015, 2016 and 2017 and a compensation plan for 2015.

The compensation policy is intended to define and specify the Company's policy in relation to remunerating the Company's officers by bringing the contents of the policy closer to the requirements of Amendment 20 of the Companies Law, 1999, while taking into consideration the special characteristics of the Company. The aim of the policy is to create a reasonable and appropriate array of incentives for the Company's officers, taking into consideration, inter alia, the characteristics of the Company, its business operations, its risk management policy and its labor relations, as well as providing the necessary tools in order to recruit, incentivize and retain at the Company talented and reliable executives, who will be capable of contributing to the Company and maximizing its profits from a long-term perspective. The policy is based, inter alia, on a benchmark analysis that was conducted in relation to compensation data of executives of Israeli companies that are connected with the financial sphere, including weighting the compensation data of executives of regulatory bodies, using a weighting determined for this purpose.

The policy places emphasis on performance-based compensation and strengthening the officers' attachment to the Company and its performance, while aligning the compensation of the officers with their contribution to the attainment of the Company's goals and to maximizing its profits, from a long-term perspective and in accordance with their position. The policy creates a proper balance between the various compensation components (such as fixed versus variable and short term versus long term).

On July 30, 2015, TASE's general meeting approved the three-year compensation policy and the compensation plan for 2015 in relation to the Chief Executive Officer of TASE and the Chairman of the Board of Directors.

On May 5, 2016, following approval by the Audit Committee sitting also as the Compensation Committee, the Company's Board of Directors approved a compensation plan for 2016 in relation to TASE's vice presidents. The compensation plan for 2016 sets threshold terms for a cash bonus, eligibility terms and ceilings for the vice presidents' cash bonus – in accordance with personal targets set for each officer on a specific basis.

On December 20, 2016, TASE's general meeting approved the amendment of the three-year compensation policy for TASE's officers in connection with the range of the fixed compensation (excluding bonuses) for TASE's CEO and the chairman of the Board of Directors.

Regarding the adoption of a compensation policy and a compensation subsequent to the date of the financial statements, see note 23 B.

(2) Related Parties:

For information regarding current liabilities for employee benefits granted to related parties, see note 21.

NOTE 14 - SHARE-BASED PAYMENT:

Fair Value of Equity Instruments Granted During the Period

In February 2017, the principles of a special collective agreement were finalized, whereby it was agreed – inter alia – that shares would granted to employees in respect to a change in the ownership structure.

TASE allocated 6,000,000 ordinary shares, having no par value, to a trustee for TASE employees and service providers, for no consideration. The allocation of shares to TASE employees was done within the framework of the compensation plan, which had been approved by the organs of TASE; and was made under the "capital gains with a trustee" track pursuant to Section 102 of the Income Tax Ordinance.

The shares allocated under the plan are ordinary shares ranking pari passu with the existing shares in accordance with the new Articles of Association, subject to the restrictions set forth below, and including the right to any dividend, bonus shares, rights issue or any other benefit or award that will be granted in respect to the Company's other ordinary shares.

With effect from the date of allocating the shares until the end of a 4-year period from the allocation date, or until the date of a public offering, whichever is the earlier, a participant will not be entitled to exercise the voting rights attached to the shares allocated to him under the plan, including any bonus shares that may be granted in respect thereto, and he will not be entitled to participate in the general meetings of TASE's shareholders or to vote by any means whatsoever (including by means of the trustee) at such general meetings, by virtue of the shares allocated under the plan or by virtue of bonus shares that may be granted in respect thereto.

Any manner of transfer of the shares is prohibited for a period of 24 months from the allocation date. In addition, so long as a public offering does not take place during the 4-year period from the allocation date, a participant will not be entitled to sell or transfer shares that were allocated to him under the plan during an addition 24-month period from the end of lock-up period.

Should a public offering take place before the end of 4 years from the allocation date, the following provisions will apply:

From the date of the public offering until the end of a 12-month period from the date of the public offering – a participant will not be entitled to sell or transfer shares that were allocated to him under the plan. Effective from end of 12 months from the date of the public offering until the end of 24 months from the date of the public offering – a participant will be entitled to sell or transfer shares in a quantity representing up to 50% of the number of shares allocated to him under the plan. Effective from end of 24 months from the date of the public offering – a participant will be entitled to sell or transfer all the shares allocated to him under the plan.

The fair value was determined by an independent, external appraiser possessing recognized professional qualifications. The fair value was assessed using the DCF (Discounted Cash Flows) method, deducting a discount for lack of marketability based on the lock-up period and the expected issuance date. The cash flows were estimated for a 5-year period based on TASE's operating results for the first half of 2017 and management's forecast for the second half of 2017 and subsequent years, and on additional assumptions. The key assumptions used in the calculating the fair value were a real discount rate of 8% and a growth rate 3% per representative year.

The fair value obtained from the DCF model was reduced by 9.1%, in respect of a discount for lack of marketability of the shares in accordance with the Finnerty model (a deduction computed according to the following data: the date on which the shares' lock-up period is expected to end; from the end of two years until the end of five years from the allocation date subject to the Company's offering date; the standard deviation for similar companies is 22%-23%).

The grant was performed with the need for vesting terms and, accordingly, the Company recorded the full expense in respect to the plan in 2017, in an amount of NIS 27.4 million. The expense was charged against a capital reserve for share-based payment transactions.

NOTE 14 - SHARE-BASED PAYMENT (CONT.):

Fair Value of Equity Instruments Granted During the Period (Cont.)

The shares were granted under the capital gains track and therefore no tax asset has been recorded in respect to the expense.

NOTE 15 - TAXES ON INCOME:

A. Deferred Tax Balances:

(1) Composition and Changes:

	Timing Differences					
	Current Loss	Financial Assets at Fair Value Through Profit or Loss	Property and Equipment (Including a Provision for Impairment) and Intangible Assets	Provisions (Mostly for Employee Benefits)	Available-For-Sale Financial Assets	Total
	NIS, in thousands					
As of January 1, 2016	-	78	12,173	9,131	265	21,647
Changes in the reporting year:						
in profit or loss	953	2	(4,279)	(629)	795	(3,158)
in other comprehensive income	-	-	-	(365)	(94)	(459)
As of December 31, 2016	953	80	7,894	8,137	966	18,030
Changes in the reporting year:						
in profit or loss	(562)	(96)	(2,245)	105	438	(2,360)
in other comprehensive income	-	-	-	433	(631)	(198)
As of December 31, 2017	391	(16)	5,649	8,675	773	15,472

(2) Presentation of Deferred Tax Balances in the Statement of Financial Position:

Deferred tax balances are presented in the Statement of Financial Position under non-current assets as “Deferred tax assets”. In regard to the review of the likelihood of there being sufficient taxable income to utilize the deferred tax assets – see note 3 D.

B. Timing Differences on Investments in Subsidiaries, Without Recognition of any Deferred Tax Liability:

	December 31,	
	2017	2016
	NIS, in thousands	
Subsidiaries	64,985	62,463

NOTE 15 - TAXES ON INCOME (CONT.):

C. Amounts for Which Deferred Tax Assets Have not been Recognized:

	December 31,	
	2017	2016
	NIS, in thousands	
Capital loss for tax purposes	1,157	2,754
Business loss for tax purposes	447	-

D. Expenses for Taxes on Income Recognized in Profit or Loss:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Current tax:			
Current tax	1,910	1,745	6,643
Tax expense for prior years	376	-	620
Total current tax	2,286	1,745	7,263
Deferred tax:			
Deferred tax expense – recognition and reversal of temporary differences	2,707	819	1,066
Tax for prior years	(347)	-	(830)
Deferred tax adjustments further to changes in tax rates, in profit or loss	-	2,339	-
Total deferred tax	2,360	3,158	236
Total expenses for taxes on income	4,646	4,903	7,499

E. Tax Relating to Components of Other Comprehensive Income:

	Amount Before Tax	Tax Effect	Amount Net of Tax
	NIS, in thousands		
As of December 31, 2017:			
Gain on remeasurement of available-for-sale financial assets	2,726	(627)	2,099
Actuarial loss in respect to the defined benefit plan	(11,810)	2,716	(9,094)
	(9,084)	2,089	(6,995)
As of December 31, 2016:			
Loss on remeasurement of available-for-sale financial assets	(18)	4	(14)
Actuarial loss in respect to the defined benefit plan	(9,925)	2,283	(7,642)
	(9,943)	2,287	(7,656)
As of December 31, 2015:			
Loss on remeasurement of available-for-sale financial assets	(371)	98	(273)
Actuarial loss in respect to the defined benefit plan	(9,994)	2,648	(7,346)
	(10,365)	2,746	(7,619)

NOTE 15 - TAXES ON INCOME (CONT.):

F. Effective Tax:

The difference between the tax liability based on statutory tax rates and the amount provided for income tax is as follows:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Pretax income (loss)	(9,624)	7,004	27,841
Statutory tax rate	24%	25%	26.5%
Tax expense (benefit), at statutory tax rate	(2,310)	1,751	7,378
Tax increase (savings) in respect to:			
Income liable to special tax rates	(70)	(49)	(68)
Losses and tax benefits not recognized in respect to deferred tax	140	687	334
Differences between tax laws and accounting principles	(4)	(25)	(199)
Expenses which are not recognized for deduction	(*) 6,861	200	264
Changes in tax rates, in profit or loss	-	2,339	-
Tax – prior years	29	-	(210)
Taxes on income, as reported in profit or loss	4,646	4,903	7,499

(*) Includes NIS 6,572 thousand in respect to share-based payments

G. Additional Information:

(1) Corporate Tax Rate:

Below are the tax rates relevant to the Company for the years 2015-2017:

Year	Tax Rate
2015	26.5%
2016	25%
2017	24%

Within the framework of the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the Years 2017 and 2018), 2016, which was published in the official Gazette on December 29, 2016, the following tax changes were enacted:

The corporate tax rate was reduced from 25% to 24% in 2017 on income generated or accrued from January 1, 2017, and will be further reduced to 23% in 2018 and thereafter on income generated or accrued from January 1, 2018.

As a result of the aforesaid legislation, deferred tax assets as of December 31, 2016, decreased by NIS 2,702 thousand, of which NIS 2,339 thousand was included in tax expenses for 2016 and NIS 363 thousand was included in other comprehensive income for 2016.

(2) Tax Assessments:

The Company and its subsidiaries – the MAOF Clearing House Ltd. and the Tel Aviv Stock Exchange Clearing House Ltd. have received tax assessments that are considered final up to and including the 2012 tax year.

NOTE 16 - CONTINGENT LIABILITIES:

A. Indemnification of Officers:

TASE is under an obligation to indemnify officers of TASE and TASE-CH. MAOF-CH is under an obligation to indemnify its officers.

The total indemnity for all TASE officers, on an aggregate basis, based on all letters of indemnification issued now or in the future, in accordance with said obligation, in respect to one or more of the events detailed in said letters, shall not exceed USD 20 million, in total.

The total indemnity for all TASE-CH officers, on an aggregate basis, based on all letters of indemnification issued now or in the future , in accordance with said obligation, in respect to one or more of the events detailed in said letters, shall not exceed NIS 50 million, in total.

The total indemnity for all MAOF-CH officers, on an aggregate basis, based on all letters of indemnification issued now or in the future , in accordance with said obligation, in respect to one or more of the events detailed in said letters, shall not exceed NIS 75 million, in total.

The obligation to indemnify will apply in respect to any liability or expense that is indemnifiable in accordance with the law.

The indemnification is subject to the provisions of Chapter III, Part 6 of the Companies Law.

B. Exemption from Liability Granted to Officers:

TASE's general meeting has resolved, subject to the provisions of the Companies Law, to relieve TASE's directors and other officers of liability for any damage caused or to be caused due to a breach of their duty of care to TASE.

TASE-CH's general meeting has resolved, subject to the provisions of the Companies Law, to relieve TASE-CH's directors and other officers of liability for any damage caused or to be caused due to a breach of their duty of care to TASE-CH.

MAOF-CH's general meeting has resolved, subject to the provisions of the Companies Law, to relieve MAOF-CH's directors and other officers of liability for any damage caused or to be caused due to a breach of their duty of care to MAOF-CH.

C. On April 13, 2016, an administrative petition was filed with the Jerusalem District Court by TASE's employees' committee. The petition was filed against the Registrar of Endowments and against TASE ("the Petition").

The Petition seeks the cancellation of the Registrar of Endowments' decision from March 1, 2016, whereby "it is inappropriate to register TASE as a public benefit company".

On August 3, 2016, a ruling was given whereby the Petition was rejected and the petitioner was ordered to pay the costs of each of the respondents (including TASE). As part of the ruling, it was determined that a review the characteristics of TASE's activity reveals that its activity is not solely public and thus the decision of the Registrar of Endowments is not to be interfered with.

On September 29, 2016, TASE's employees committee filed an appeal with the Supreme Court against the ruling of the Jerusalem District Court ("the Appeal").

On October 1, 2017, the Court decided to reject the proceedings without an order for costs.

NOTE 16 - CONTINGENT LIABILITIES (CONT.):

D. On October 9, 2016, an administrative petition under the Freedom of Information Law, 1998 was filed with the Jerusalem District Court ("the Petition") on behalf of the Movement for Quality Government in Israel (R.A.) ("the Movement" or "the Petitioner") against the Israel Securities Authority ("the Authority"), the officer in charge of the freedom of information at the Authority and the Tel-Aviv Stock Exchange Ltd. ("TASE" and, collectively, the Respondents").

In the Petition, the Petitioner alleged that concern exists regarding the presence of failures in TASE's economic conduct in relation to the construction of its new building on Ahuzat Bayit Street in Tel Aviv-Jaffa ("the New Building") and regarding the Authority's supervision of TASE's conduct in connection with this.

Within the context of the Petition, the Court had been asked to order the Authority to deliver to the Petitioner various documents that it had received and that had originated with TASE.

On December 18, 2017, a ruling was given in regard to the Petition. In its ruling, the Court ordered that a "redacted version" be delivered to the Petitioner (viz. a version in which with the names of the persons mentioned in the documents are blacked out, apart from the names of those present at the discussions).

The Petition did not include monetary reliefs against TASE and therefore did not have any financial implications, other than in relation to delivering the requested documents and the trial costs for which TASE was made liable.

E. Because of the field of their operations, the Group companies receive, in the ordinary course of business, inquiries from traded companies and/or from shareholders of traded companies, which include various claims. Some of the inquiries may lead to lawsuits being filed. The Group companies may incur amounts in respect to their operations. In cases where the extent of liability in respect to the above is not material and/or cannot be reasonably estimated, no provision is made in the financial statements.

NOTE 17 - SHARE CAPITAL:

Composition:

	Number of shares	
	As of December 31, 2017	
	Authorized	Issued and Paid-Up
Ordinary shares having no par value	150,000,000	100,000,000

Following the approval of TASE's restructuring arrangement, since September 2017, the Company's authorized share capital has consisted of 150,000,000 ordinary shares having no par value, from which 100,000,000 ordinary shares having no par value have been issued.

In accordance with Section 41 (e) (2) (b) of the Securities Law (Amendment No. 63), 2017, in respect to a TASE shareholder that immediately following the approval of TASE's restructuring arrangement holds means of control in TASE at a rate in excess of five percent of the total means of control in TASE, the means of control that it holds will not give it additional rights beyond those conferred by a holding of five percent of the total means of control in the Company, with this being until the end of five years, or until the date of TASE shares being offered to the public and their being listed, whichever is the earlier.

In accordance with the aforesaid, 34,415,413 shares having no par value, from the Company's issued share capital, do not confer rights of the holders of these shares. For further details, see note 1 B.

NOTE 18 - ADDITIONAL DETAILS REGARDING REVENUE FROM SERVICES:

A. Major Customers:

Client "A" accounted for 14.1% of total revenue in 2017, while client "B" accounted for 14% (2016: client "A" – 14.3% and client "B" – 14%).

B. Composition of Trading and Clearing Commission:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Commission for trading and clearing securities, excluding derivatives:			
Shares *	34,584	31,342	41,839
Bonds *	31,923	32,731	38,122
Mutual funds	23,325	21,856	25,670
Other	1,307	1,897	2,632
	91,139	87,826	108,263
Commission for trading and clearing derivatives:			
TA Index options	18,674	21,888	25,599
Dollar/shekel options	4,723	4,575	5,135
Other derivatives	1,032	1,318	2,001
	24,429	27,781	32,735
Total	115,568	115,607	140,998

* Including ETNs.

NOTE 19 - ADDITIONAL DETAILS REGARDING COST OF REVENUE:

A. Employee Benefit Expense:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Salary (including grants and severance payments)	131,000	128,517	137,581
Non-current employee benefits	324	160	28
Defined contribution plan expenses	2,972	2,491	2,035
Defined benefit plan expenses	5,946	5,597	5,453
	140,242	136,765	145,097
Less – amounts capitalized to intangible assets and property and equipment (see note 12)	(11,544)	(12,101)	(15,854)
	128,698	124,664	129,243

B. Depreciation and Amortization:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Depreciation of property and equipment (see note 11)	13,788	15,905	17,275
Amortization of intangible assets (see note 12)	15,809	16,283	13,455
	29,597	32,188	30,730

NOTE 20 - FINANCING INCOME, NET:

Composition:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Financing expenses:			
Bank fees and commissions	146	130	40
Interest and linkage expense – income tax	-	38	26
Other financing expenses	185	94	76
	331	262	142
Financing income:			
Net gain from financial assets held for trading	592	84	3,933
Net gain (loss) on available-for-sale financial assets (bonds)	969	408	(202)
Total net gain from financial assets	1,561	492	3,731
Interest income – short-term deposits	3	19	5
Interest and linkage income – income tax	310	235	283
Interest income – employee loans	26	19	25
	1,900	765	4,044
	1,569	503	3,902

NOTE 21 - INTERESTED AND RELATED PARTIES:

A. Benefits to Interested Parties (*):

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Short-term benefits	3,052	2,304	2,766
Post-employment benefits	125	605	87
Salary and related expenses – Chairman of the Board of Directors and the CEO (**)	3,177	2,909	2,853
Number of individuals	2	2	2
Fees of directors, not employed by the Company	1,045	1,214	992
Number of individuals	6	6	5

(*) These amounts also represent compensation to key management personnel.

(**) The services of the Chairman of the Board of Directors are provided through a management company that he owns.

NOTE 21 - INTERESTED AND RELATED PARTIES (CONT.):

B. Balances with Interested and Related Parties:

(1) Balances with Interested Parties:

	December 31,	
	2017	2016
	NIS, in thousands	
Under current assets (*)		
Cash and cash equivalents	27,997	22,051
Trade receivables (**)	5,570	6,722
Other receivables – MAOF-CH (**) (***)	14,578	7,152
Other receivables – Nominee Company (**) (***)	361	-
Other receivables – TASE-CH (**) (***)	-	3,842
Under non-current assets		
Long-term loan – TASE-CH (***)	59,757	59,578
Under current liabilities (*) (**)		
Other payables – Other	2,500	958
Other payables – TASE-CH (**) (***)	1,354	-

(*) See note 7, regarding receivables and payables in respect to open derivative positions.
(**) The balances are interest-free and are not linked to the CPI.
(***) Balances with subsidiaries are not included in the Company's consolidated statements.

(2) Liabilities for Employee Benefits to Key Management Personnel:

December 31,	
2017	2016
NIS, in thousands	
496	-

NOTE 21 - INTERESTED AND RELATED PARTIES (CONT.):

C. Transactions with Interested and Related Parties:

(1) Transactions with Interested Parties:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Revenue from services	160,731	152,319	174,768
Cost of revenue	(7,412)	(6,734)	(6,704)
Financing income, net (*)	(326)	(310)	(226)

(*) The Company and the subsidiaries have financing income and expenses from transactions with interested parties that are banks and other members of TASE, resulting from transactions executed in the ordinary course of business, and under ordinary terms for transactions executed with "non-interested parties". These amounts are, for the most part, derived from deposits with banks, administering current accounts and managing securities portfolios, and are classified under "financing income, net".

(2) Transactions with Related Parties:

	Year Ended December 31,		
	2017	2016	2015
	NIS, in thousands		
Transactions with subsidiaries:			
Participation in revenue and expenses in accordance with the distribution model (a)			
Participation in revenue – MAOF-CH	2,877	3,534	4,640
Participation in revenue – TASE-CH	(123,020)	(118,517)	(124,487)
Participation in expenses – MAOF-CH	24,885	25,366	25,299
Participation in expenses – TASE-CH	97,964	102,522	104,747
Participation in expenses – Nominee Company	447	-	-
Initiation fees – TASE-CH	19,991	11,031	13,544
Financing Income (expenses) – loan to TASE-CH **(b)**	2,717	2,300	(80)
Share-based payments – MAOF-CH	2,763	-	-
Share-based payments – TASE-CH	11,346	-	-

NOTE 21 - INTERESTED AND RELATED PARTIES (CONT.):

C. Transactions with Interested and Related Parties (Cont.):

(2) Transactions with Related Parties (Cont.):

(a) Distribution Model:

TASE and the two Clearing Houses are closely interconnected. This as TASE provides the Clearing Houses with their required operational infrastructure (information technology, human resources, management, etc.).

At the beginning of 2015, TASE's Board of Directors and TASE-CH's Board of Directors and MAOF-CH's Board of Directors approved a model for distributing the income, expenses, and profit between TASE, TASE-CH and MAOF-CH ("the distribution model").

Consequently, the allocation of income and expenses of the Group between the Group companies, commencing from 2014, has been prepared in accordance with the distribution model, which reflects the scope of activities of each of the companies.

In formulating the distribution model, an allocation was made of three main parameters: income, expenses and the distribution of the economic profits of the Group between the companies.

As part of the income allocation, all specific income of the Group's companies was identified and assigned, in accordance with the pricelist. In order to determine the ratio of any mixed income, a mapping of exchanges and clearing houses around the world was prepared in order to identify the principles that would be used as benchmarks to determine how to allocate any mixed income involved. Based on an analysis of actual trading and clearing revenue, the allocation ratio vis-à-vis trading and clearing between TASE and TASE-CH is 50% trading and 50% clearing. The allocation ratio vis-à-vis trading and clearing between TASE and MAOF-CH is 15% trading and 85% clearing.

As part of the expense allocation, all specific expenses of the various departments were identified and assigned. For the allocation of costs and services that were provided centrally by TASE (including salaries) to all the Group's companies, various principles were considered and determined for the distribution of the said expenses (such as the ratio of income and head counts).

As part of the process of distributing the economic profit among the Group's companies, consideration was given to the link between the Group's companies taking part together in any specific line of business over time that creates a breakeven point between them that would allow all the Group's companies to share in all activities as a result of said, as from the standpoint of the market and from the standpoint of TASE's group structure, TASE is at the trading and clearing front in Israel. To this end, management was aided by game theory models in order to validate the selected equilibrium point. The profitability index used as the allocation key under the profit sharing model is a 10.3% rate of return on equity, as reflected in the financial statements of TASE-CH and MAOF-CH. This index was found to be appropriate, in the sector in which the companies operate, as demonstrated by the various regulatory requirements to which TASE and the Clearing Houses are subject, which are similar to the requirements applicable to the Israeli banking system.

NOTE 21 - INTERESTED AND RELATED PARTIES (CONT.):

C. Transactions with Interested and Related Parties (Cont.):

(2) Transactions with Related Parties (Cont.):

(a) Distribution Model (Cont.):

During 2017, a new economic study was conducted to examine and validate the distribution model for 2017. The model was approved by the boards of directors of the Group's companies and, in accordance with this, an agreement was signed for 2017 between the Group's companies.

The distribution model that the Group applied during 2014-2016 was examined and found to be suitable to be used for distributing the expenses, income and profit for 2017; no methodological changes were made in the model for 2017 and the income ratios and the return on equity ratio used by the Group were found to be suitable.

It has also been prescribed that the working principles of the distribution model are to be applied to the Nominee Company from the date of its establishment.

In addition, it was determined that the salary expenses in respect to the allocation of shares to employees will be attributed to TASE-CH and to MAOF-CH, each in accordance with its share, and will be recorded by the Clearing Houses against equity and without any transfer of funds to TASE. It should be noted that these expenses will not be taken into account in distributing the economic profit between the Group's companies.

(b) Provision of a Loan to TASE-CH:

On December 15, 2015, TASE granted a loan to TASE-CH pursuant to an agreement signed between those companies on December 8, 2015 and which was approved by the Board of Directors of TASE and by the Board of Directors of TASE-CH on November 26, 2015. Pursuant to the above agreement, TASE has granted a loan to TASE-CH in an amount of NIS 60 million, under the following terms:

- The rights by virtue of the loan are subordinate to those of other creditors of TASE-CH.
- No collateral will be provided against the loan.
- The term until the maturity of the loan is 10 years.
- Early repayment of the loan will only be permitted after the elapse of five years and only at the demand of TASE-CH.
- The loan is linked to the consumer price index and bears annual interest (at a rate of 4.25% per year).

D. Additional Information on Transactions with Interested and Related Parties:

(1) TASE Resolutions on Providing a Credit Line to TASE-CH and to MAOF-CH:

In 2004, TASE approved the grant of a loan to TASE-CH, which would not exceed NIS 50 million, in the event that TASE-CH required such funds to meet its liabilities. It was also resolved to authorize a Committee of the Board of Directors to determine when the loan would be granted and also the amount of the loan, which may not exceed NIS 50 million. The loan will be made available at the same rate of interest as the Bank of Israel charges the banks, unless otherwise agreed between TASE and TASE-CH. Concurrently, in 2004 TASE-CH authorized its CEO to apply for and obtain a loan from TASE, which would not exceed NIS 50 million, as required.

NOTE 21 - INTERESTED AND RELATED PARTIES (CONT.):

D. Additional Information on Transactions with Interested and Related Parties (Cont.):

(1) TASE Resolutions on Providing a Credit Line to TASE-CH and to MAOF-CH (Cont.):

In early 2009, TASE approved the grant of a loan to MAOF-CH, which would not exceed NIS 50 million, and provided that the total loan to MAOF-CH and to TASE-CH together, as above, would not exceed NIS 50 million, in the event that MAOF-CH required such funds in order to meet its liabilities. It was also resolved to authorize the abovementioned Committee of the Board of Directors to determine when the loan would be granted and the amount of the loan, subject to the above limitations. The loan would be made available at the same rate of interest as the Bank of Israel charges the banks, unless otherwise agreed between TASE and MAOF-CH. Concurrently, in 2009, MAOF-CH authorized its CEO to apply for and obtain a loan from TASE which would not exceed NIS 50 million as required.

Since the approvals that were granted in 2004 and 2009, respectively, and up to the date of approving these financial statements, no such loans have been requested or granted.

TASE is under no obligation to the Clearing Houses to provide the aforesaid loans. In the course of refreshing the default procedure, TASE is re-examining the need for the credit line and the necessary procedure for drawing on it.

(2) Receipt of a Credit Line:

(a) On December 31, 2015, TASE entered into an agreement with a banking corporation for the receipt of a credit facility of up to NIS 50 million for a one-year period. The facility is automatically renewed each time for additional one-year periods, so long as one of the parties does not give notice of its desire to cancel it. The credit facility will enable TASE to receive short-term shekel loans from time to time from the banking corporation, up to the limit of the facility. Such loans are to be repaid no later than 12 months after the date of their being granted, and in no event no later than the date of the credit facility's termination.

(b) Against receipt of the credit, TASE has pledged and/or charged in favor of the banking corporation, as collateral for the repayment of all the debts secured by the credit agreement, in an unlimited amount, all TASE's rights in the land that serves as the TASE offices. For further details, see note 22 B.

(3) See note 16 for information regarding indemnification of officers and exemption from liability granted to officers.

(4) See note 4 B (2) (c) regarding an agreement with the Bank of Israel.

NOTE 22 - CHARGES:

A. In March 2008, TASE-CH opened a bank account ("account") for obtaining loans, if and when TASE-CH has an immediate need for cash to ensure continuous clearing in the event of a member default.

In April 2008, a first-ranking fixed charge was registered on the securities now deposited or that will be deposited in the Account, or on the proceeds from their sale and/or gains to be deposited in said account.

NOTE 22 - CHARGES (CONT.):

A. (Cont.)

If TASE-CH takes such a loan in the future, it will deposit the collateral in favor of the bank in said account.

TASE-CH has not made any use of the account since it was opened, and no assets have been deposited with the bank.

B. During January 2016, TASE pledged and/or charged, in favor of a banking corporation with which it had entered into an agreement for the receipt of a credit facility as described in note 21 D (2), as collateral for the repayment of all the debts secured by the credit agreement, by way of a lien in an unlimited amount, all its rights in the land that serves as the TASE offices, which is designated as Section 74 and Section 71 of Parcel 6920 in Tel Aviv-Jaffa. Likewise, all TASE's contractual rights in the land designated as parts of Section 45 and parts of Sections 47-49 of Parcel 6920 in Tel Aviv-Jaffa have also been pledged in favor of the banking corporation.

The agreement with the banking corporation allows TASE, upon fulfillment of certain conditions, to lease the TASE building, in the event of the mortgage being foreclosed.

As part of the terms and conditions for the credit, it has been agreed that the banking corporation will give its consent for a mortgage to be created against the land, for a lien on the contractual rights and for a caveat to be registered on the land, for the purpose of securing additional credit, which TASE might take from the banking corporation and/or from another financial institution ("the other lender"). All these will also be first-ranking (pari passu) and in an unlimited amount, provided that the total amount of TASE's indebtedness and liabilities to the banking corporation and to the other lender do not exceed 65% of the value of the land according to an up-to-date valuation that is to be furnished by TASE to the banking corporation at every relevant examination date.

NOTE 23- EVENTS AFTER THE REPORTING DATE:

A. On December 28, 2017, within the framework of the restructuring of TASE and as part of TASE's strategic assessment process, TASE contacted all its shareholders requesting that it be sent offers from TASE shareholders for the purchase of shares held by them, in accordance with the terms and conditions set forth in the proposal, the principal of which are as follows:

(1) The shareholder may designate the number of shares that it is interested in selling within the framework of the offer.

(2) The price for the shares being offered will be computed according a Company value of five hundred million shekels (NIS 500 million).

(3) The offer is irrevocable and may not be voided until April 18, 2018. The validity of the offer will automatically lapse if TASE does not deliver an acceptance notice to the offering shareholder.

(4) At any time during the term of the offer, TASE may give the offering shareholder written notice that the offer regarding all the shares being offered for sale, or any part thereof, has been accepted.

(5) If the supply of shares from the shareholders within the framework of the aforesaid offers exceeds the overall number of shares that TASE is to purchase, the number of shares it will buy from each shareholder will be bought computed on a pro rata basis.

(6) TASE is under no obligation to accept the offer, or any part thereof, or to purchase the shares being offered for sale at all, or any part thereof.

NOTE 23- EVENTS AFTER THE REPORTING DATE (CONT.):

A. (Cont.):

(7) TASE may, at any time during the term of the offer, assign its rights and obligations under the Offer to any third party it deems fit, at its discretion. If the rights/obligations have been assigned by TASE as aforesaid, the assignee will be deemed to be standing in TASE's place for all intents and purposes in relation to the offer and its performance.

(8) TASE is responsible for dealing with and obtaining all the approvals needed pursuant to the law and in accordance with TASE's By-Laws in order for it to be possible to transfer the shares to TASE, or to the recipient of the rights under an assignment of rights that is to be executed.

(9) If the acceptance notice to be given by TASE and the fulfillment of the statutory obligation to obtain regulatory approval to execute a transfer and the regulatory approval, are not received/obtained before the elapse of 60 days from the final date, the acceptance notice will be deemed as not having been given and the offer will be deemed as not having been accepted.

Pursuant to TASE's aforementioned letter, shareholders holding 71.7% of TASE's issued shares had responded to TASE's request by January 18, 2018 stating that they were interested in selling their shares within the framework of the plan outlined above.

In order to realize the contingent purchase transaction with the existing shareholders, TASE needs to notify them by April 18, 2018. Further to that stated above, TASE has been in contact with leading stock exchanges throughout the world and has proposed to them that they consider the possibility of investing in TASE.

B. Adoption of Compensation Policy and Compensation Plan

(1) On March 29, 2018, after having received the approvals for this from the Company's Audit Committee and its Compensation Committee, TASE's Board of Directors adopted a compensation plan for TASE's officers, in relation to the years 2018-2020. The policy defines and sets out the Company's policy regarding its officers' compensation and results from combining the provisions of Amendment 20 that applies to debenture companies with the broad principles that the Company's Board of Directors see fit to adopt in regard to the compensation of the Company's officers, while taking into consideration the characteristics of TASE.

During the term of the policy, the Company may grant equity compensation to the officers who report to the Company's CEO, in accordance with the terms and conditions stipulated in the compensation policy.

The compensation policy will be brought before the Company's general meeting for approval.

(2) On March 29, 2018, after having received the approvals for this from the Company's Audit Committee and its Compensation Committee, TASE's Board of Directors adopted a compensation plan for the officers who report to the CEO, in relation to the years 2018-2020, which includes a monetary bonus and long-term equity compensation. Within the framework of the compensation plan, officers who report to the CEO will be granted up to 4.2 million options to purchase Company shares in consideration for the payment of an exercise price and subject to certain eligibility terms and conditions. The share options to be granted pursuant to the plan will not be listed on TASE and their exercise will be contingent, inter alia, on the listing of the Company's shares on TASE.

NOTE 23- EVENTS AFTER THE REPORTING DATE (CONT.):

B. (Cont.):

The principal aims of the equity compensation plan are:

- The creation of a long-term compensation component and the retention of those to whom it is granted.
- The provision of an incentive to raise the long-term value of the Company.
- The provision of an incentive that will assist in finalizing the listing process of the Company's shares.
- The creation of a commonality of interests between those to whom said equity compensation plan is granted and the Company's shareholders.
- The grant of competitive compensation in relation to the market.

(3) On March 29, 2018, after having received the approvals for this from the Company's Audit Committee and its Compensation Committee, TASE's Board of Directors adopted a compensation plan for the Chairman of the Company's Board of Directors and for the Company's CEO, in relation to the years 2018-2020, which includes a monetary bonus based on quantitative and qualitative criteria. The compensation plan is in accordance with the compensation policy that was approved as stated above.

The compensation plan for the Chairman of TASE's Board of Directors and for its CEO will be brought before the Company's general meeting for approval.